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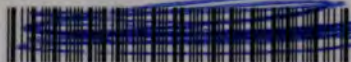
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# HISTORY OF ECONOMIC THOUGHT

A CRITICAL ACCOUNT OF THE  
ORIGIN AND DEVELOPMENT OF THE ECONOMIC  
THEORIES OF THE LEADING THINKERS  
IN THE LEADING NATIONS

**ECONOMICS  
READING ROOM**

LEWIS H. HANEY, PH.D.

AUTHOR OF "A CONGRESSIONAL HISTORY OF RAILWAYS"  
"BUSINESS ORGANIZATION AND COMBINATION"

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## PREFACE TO THE FIRST EDITION

It is the aim of this book to present a critical account of the whole development of economic thought in the leading nations of the Occidental world; and, while keeping the purely economic viewpoint, to indicate some of the most important relations of economic thought with philosophy and environmental conditions. As it is designed to serve as a textbook for the growing number of advanced students who study the history of Economics, every effort has been made to give a fair and well-rounded account of the thought of the leading writers, avoiding the emphasis of some newly discovered point or interesting but obscure writer which would characterize a monograph.

Doubtless there will be some difference of opinion about the relative space here devoted to the different economists, and some cases of omission or bare mention will be criticized. It should therefore be stated that a twofold test has been the basis of selection in this regard: first, what has been the writer's effect upon the stream of economic thought? next, what important point in theory has he originated or developed? If his contribution has been both discovery in theory and a profound effect on his contemporaries, then he deserves considerable discussion. These two phases of importance do not necessarily go together, as the experience of Lloyd, Gossen, and others bears witness.

In covering so vast a field it has seemed desirable to standardize the method of treatment to some extent. Accordingly, the general plan of procedure in dealing with an individual economist has been first to indicate briefly the pertinent circumstances of his environment, both objective and subjective; then to discuss his economic thought under the heads of value theory, and the shares in distribution;



concluding with a statement of his logical method and philosophy. But this procedure has not been rigidly adhered to, omissions being made in the case of the less important writers and additional points developed in other cases. Any noteworthy point which is associated with an economist's name has generally received attention. In a word, value and distribution have been emphasized, but are far from being the only topics treated.

Some may be inclined to criticize the relative space given to Socialism. It has been common for French writers to devote a much larger share of their attention to this subject, while our most available English work, Ingram's *History of Political Economy*, leaves it virtually undiscussed. The writer has taken a middle ground, merely presenting a short sketch of the chief socialistic criticisms of the classical English economic thought. More comprehensive accounts of the development of Socialism are readily available in English.

Finally, it will be observed that after Adam Smith the chronological development of the subject has been sacrificed to some extent for the sake of a more topical arrangement. It is believed that the analysis followed will lend far more to the interest and intelligibility of the history than would be required to offset this sacrifice.

It is perfectly obvious that no writer of a book of this kind can have read carefully and completely all the works he mentions. Life is too short. Moreover, so to read would be a waste of time, even if life were longer. It would take years to read all the works of all the minor French and German authors referred to in the period 1800-1850, and would be folly at the same time. Works of this kind can sometimes be "sampled." Traditional views, too, may often be tested in the same way. The writer has endeavored to form independent judgments in every case, and where traditional views are presented it is because they are believed to be correct. He has been far from opposing a view simply because others have held it. In the case of the major

writers, what is essential has been read, and some of the important books have been gone over again and again. The essential part of the views here presented is based upon independent study. Where mistakes are discovered they will be corrected in future editions, and the author will appreciate the kindness of readers who will call his attention to errors. He realizes that, especially in the treatment of recent thought, the range is so close that accuracy and just perspective are very difficult of attainment.

In making recognition of the aid which he has received, the writer wishes first of all to make clear the extent of his obligation to the editor, Professor Richard T. Ely. The present work falls but little short of being a joint product. Indeed, it is only the magnanimity of Dr. Ely which has altered the original intention to publish it as such. Some twenty-five years ago, when teaching at Johns Hopkins University, Professor Ely prepared a history of economic thought for publication; but he withheld it for further work, and since that time has made numerous additions. Five years ago, while the author was an instructor in the State University of Iowa, Professor Ely proposed to him that he take this old and incomplete manuscript and so revise it that it might be published under their joint authorship. Meanwhile the writer had been lecturing on the same subject, so that his lecture notes were combined with parts of Dr. Ely's manuscript to make the present work, the composition being conducted independently by him. The various chapters were submitted to Professor Ely from time to time, and he made suggestions concerning style and matter. Furthermore, during the summer of 1910, Professor Ely went over the work in conference with the writer, and the discussions of that time resulted in additions and improvements. Both directly and indirectly, therefore, Professor Ely's part has been an important one. The chapters on Carey, Bastiat, and List are largely his, also parts of the one on Mill, and his first-hand familiarity with the German Historical School has enabled him to make valuable suggestions

on that subject. At a few points, no doubt, even traces of his language may remain. Yet upon Dr. Ely's suggestion and advice, in view of the predominance of independent work by the writer in matter, composition, and arrangement, it has been decided to publish the book under the latter's single name. Accordingly, the writer wishes to express here his deep indebtedness to his former teacher and present friend: in the first place, for stimulating the production of this work as he has so many others; secondly, for many direct suggestions as to style and emphasis; and, finally, for a host of indirectly acquired ideas and stimuli without which the book would lack many of such merits as it may now possess. He assumes full responsibility for the weaknesses and errors, while he feels that an unusually large degree of credit is due the editor.

The writer also wishes gratefully to acknowledge the receipt of valuable criticisms from the following economists: F. M. Taylor, of the University of Michigan; F. W. Taussig and T. N. Carver, of Harvard; I. A. Loos, of the University of Iowa; C. C. Williamson, of Bryn Mawr; L. M. Keasby, of the University of Texas; J. H. Hollander, of Johns Hopkins; and David Friday, of the University of Michigan. He is indebted to these friendly critics in the order named, his thanks being especially due to Professor F. M. Taylor, who read several of the chapters in the manuscript. Professor A. H. Lloyd, of the University of Michigan, was consulted on points in Philosophy, and made several valuable suggestions. Without the efficient assistance given by his wife in reading and correcting manuscript and proof, the publication of the book at this time would have been impossible.

LEWIS H. HANEY.

AUSTIN, TEXAS,  
December, 1910.

## PREFACE TO THE SECOND EDITION

THE author welcomes this opportunity to prepare a revised edition of the *History of Economic Thought* for two reasons: it will make possible a fuller and better discussion of certain important parts of the work, and afford an opportunity to correct numerous minor errors in matter and style which crept into the first edition. It is only regretted that the press of work at this time has prevented taking the fullest possible advantage of the opportunity.

Aside from the minor corrections designed to improve the style or method of presentation, the chief changes made consist of additions to the text. An effort has been made so to expand and clarify the discussion of the relation between Philosophy and Economics as to increase the effectiveness of this part of the work. Attention is particularly called to the introductory discussion of this subject and to the related sections in the chapters concerning the Physiocrats, the later Socialists, and the Austrian School. In addition, there has been a more complete discussion of economic theories at certain points, and a short chapter has been added dealing with the criticism of the scope given to Economics by the English Classical School. Perhaps the largest additions have been made to the chapters on the Austrian School and on the Physiocrats, although there should also be mentioned those on Mercantilism, Socialism, Italian Economic Thought in the latter part of the Nineteenth Century, and American Economic Thought during the same period. In the author's judgment, the Austrian School can now be treated in a final way, and it has been his aim so to treat it in this edition.

Two requests are made of the reader: first that he will read this *History of Economic Thought* as a book, not as an encyclopedia; second, that he will bear in mind the fact

that no attempt is made to cover the period since 1900. If the reader has not time to read the book which is presented herewith, he is invited to consult the table of contents and the index which are attached thereto; mention of developments since 1900 are for the most part designed to be but cursory and tentative.

To some, it seems that the great world war has brought conditions which call for a revolution in economic thought. This may be doubted; but however that may be, the importance of an understanding of the evolution of the economic doctrines now prevalent is but accentuated. The student of these pages will find Mercantilist and Nationalist doctrines; he will find Communism and Socialism; he will find the historical and institutional points of view. He will find that there have been other "revolutions," — that there is little under the sun which is entirely new.

LEWIS H. HANEY.

WASHINGTON, D. C.  
February, 1919.

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## **A. GENERAL INTRODUCTION**





# HISTORY OF ECONOMIC THOUGHT

## CHAPTER I

### THE NATURE AND IMPORTANCE OF THE HISTORY OF ECONOMIC THOUGHT

**THERE** are at least three different branches of study whose names contain the words History and Economics. There is, on the one hand, Economic History, or Industrial History, as it is frequently called; and on the other, there are the closely related subjects, History of Economics and History of Economic Thought. The first concerns itself with the history of commerce, manufactures, and other economic phenomena, dealing objectively with the ways in which men get their living; the second and third treat primarily of subjective matters, dealing for the most part with the ideas men have concerning economic facts and forces.

Now these last two have been confused, and their logical relationship is commonly overlooked. The history of Economics deals with a science—with a body of classified knowledge; it is limited to times in which economic ideas have become distinct, unified, and organized; it is a history of *systems* of economic thought. The Babylonians had ideas concerning interest and mortgages; the Phœnicians thought about commerce and bills of exchange; the Greeks wrote on the subject of division of labor. Does the history of Economics, then, date to such remote times? By no means. But the history of "economic thought" does, and from its point of view the unrelated primitive ideas of the earliest times are full of meaning. Indeed, for a full under-

standing of the origin and growth of the science, the underlying ideas are important. The history of economic thought is broader than the history of the science: it may properly be divided into two parts, one of which takes up the origin and development of economic ideas prior to the existence of any distinct and separate science; while the other begins with the rise of Political Economy, or the science of Economics. The point of view to be taken in the following pages is the broader one. The subject, the History of Economic Thought, may be defined as a critical account of the development of economic ideas, searching into their origins, interrelations, and manifestations.

The close relationship between economic history and the history of economic thought is at once to be emphasized. That men's thoughts depend largely upon their surroundings, no one doubts. And so it is that economic ideas, to say nothing of systems of economics, are colored and limited — determined sometimes — by industrial environment. Thus the agricultural South believes in free trade; as manufactures develop, that belief weakens. But this interaction is reciprocal; for opinions and theories once formed are tenaciously adhered to, and may become a determining element in their turn. Witness the influence of "traditional policies" in shaping the platforms and administration of American political parties. The individualism of the *laissez-faire* economists and statesmen was to a great extent the result of industrial evolution; but in its turn it became a condition reacting upon industry.<sup>1</sup> The history of economic thought, then, is an essential part of general history, both explaining it and being explained by it.

To-day it is not so necessary to defend the study of the History of Economic Thought as it once was. Even now, however, there are those who deny the usefulness of study-

<sup>1</sup> Through William Pitt (see p. 220) and Robert Peel, for example, and the economists of the dominant French school. The former were active in applying the *laissez-faire* doctrine to the corn laws; the latter did much during the nineteenth century, both as government officials and writers, to bring into practice their optimistic, let-alone theories. Of course, Pitt's accomplishments were very limited.

ing earlier economic thought. And, in any case, it will be of value to state clearly the advantages to be gained from such a study as the present; for the statement may make one's reading more purposeful and suggest new points of view.

First of all, a certain unity in economic thought is to be emphasized, a unity which connects us with ancient times. Continuity in evolution has been denied,<sup>1</sup> but such continuity can be demonstrated. Much of the difficulty comes about through an exaggeration of the negative aspect of the Middle Ages. But such an exaggeration misinterprets the period, for the medieval aloofness or quietism implied a positive philosophy which has counted in the history of thought in a positive way. Nor was this period a complete break; in it were nourished Greek ideas concerning money and interest, communism, and other economic matters,—not to mention the “nature philosophy,”—which were handed down to modern thinkers. The doctrines of the first economists concerning the importance of land and the beneficent law of nature were drawn through a continuous line of thinkers from Plato and Aristotle. As will appear further on, moreover, not only do Oriental ideas inherited from a still more remote past come down to us through Greece, but through Christianity they have exerted a continuous though changing effect upon the economic thoughts of men. It is logical, then, to begin a history like the present with some account of ancient thought.

Again, there is great value in understanding the origin of a science, especially one like economics, whose scope and nature have been under dispute. For one thing, it gives a truer concept of the relationship among sciences, an important matter for the thinker looking toward the true application of economic principles. Through a study of the history of economic thought may be gained a clear realization of the position of Economics as a distinct member of a group of social sciences: Ethics, Jurisprudence, Philosophy, Sociol-

<sup>1</sup> E.g., A. Oncken, *Geschichte der National Ökonomie*, pp. 15 f.

ogy, and others. While it is properly concerned with man's efforts to get a living in association with his fellows, as a social science it is related to other sciences which deal with human wants or affect the way men get their living. To illustrate one such relationship, it may be observed that to the extent that what is uneconomical becomes, on that account, "wrong" Economics is directly related to Ethics. Economists, as practical men, must realize that the economic sanction coöperates or conflicts with the sanctions of other social sciences, a fact which limits its application. There is, therefore, no better way for a student grounded in economics to find himself in the wider field of social science than to study the history of economic thought. For in the beginning social sciences were one. Purely economic ideas may be apparent to us, but in earlier times, the men who had them did not differentiate. Such having been the broad beginning, one may wonder if some cycle may not be completed when a scientific synthesis will again bring together feelings, desires, property, family, state, justice, law, happiness, and other concepts, on a rationally unified basis of valuation.

Then, there is the value of a broad basis for comparison which such a study brings. Standing at the highest point yet reached, after centuries of economic thought, and looking back over the path of truth, strewn with fallacies and truisms though it be, the student feels his judgment broadened, and a well-balanced and reasonable conservatism, or a wise progressivism, may fill his mind. He is not so apt to be swept off his feet by fads, nor to be made confused and hopeless when controversies rage around him; for he knows that fads and controversies have come and gone, while a substantial body of economic truth has been so established that progress must come, not through revolution, but through evolution.

The concept of relativity, the point of view according to which ideas are not judged with dogmatic absolutism, but are critically examined in the light of the times and places in

which they were formed, becomes very real. Before we can call medieval thinkers, blockheads, on the ground that they condemned interest-taking, we must examine their premises and the circumstances of those premises. Men being in part creatures of their environment, their thought is often guided and limited by the changing phenomena with which they are confronted.

Back of the different systems of economic thought, there lie more fundamental factors which condition them and, determine their nature and form. The more immediate of these factors are (I) the underlying philosophy and (II) the method of the thinker, through both of which the economic life works. The philosophy and the method form part of a premise of the syllogism, as it were. One economist reaches one conclusion, another a different one. We say their points of view were different. But each point of view is made up of a certain basal philosophy of life and a closely allied tendency to a certain methodology in thought. Not the least service of a history of economic thought is the light it throws upon this question of point of view, and it is desirable here to sketch the historical outlines of philosophy and method as a background for the more detailed history of strictly economic thought which is to follow.

**I. Philosophy.** — Since the fifth century before Christ, two great tendencies in philosophy have ever opposed and reacted upon one another. These tendencies we may call respectively Idealism and Materialism, using the terms in a broad general sense, and with full recognition of the fact that the old metaphysical problem that they formerly denoted has become more complicated than was the case when they were first used. As here used, they will be taken to cover tendencies in thought, the tendency manifesting itself perhaps in metaphysics, perhaps in epistemology, perhaps in ethics or social science.

In a strict metaphysical sense, Idealism means the belief that matter has no independent reality, but is simply a presentation of the mind. The belief is rarely if ever found

in so strict a sense, however, some room being generally allowed for a degree of independent existence of matter. This is dualism; but if a capacity to form judgments not dependent upon the material is recognized, and the importance of the peculiar constitution of our perceptive faculties is emphasized, it may be said that the tendency is toward idealism. In this sense, both Plato and Kant may be called idealists: Plato, in that he allows phenomena to be absorbed in ideas that are realities and believes in the reality of such abstract things as "goodness"; Kant, in that he held that the mind could produce genuine knowledge from its own resources. In fact, one of the most marked evidences of the tendency here called idealism, is found in the theory of origin of ideas, or judgments, the idealistic tendency being indicated when a thinker holds that these may arise independently of sense data. This would seem to imply a belief that the true nature of things is intellectual not sensuous. The thoroughgoing idealist, too, must assume the existence of some divine mind or of a supreme world-purpose to explain the regularities of phenomena; for without some such system of determination acting as a coördinating force, all continuity and regularity would be dependent upon individual human minds. It follows that idealists attribute an independent force to ideas or judgments. They regard man, not as a creature of material environment, but as a more or less independent force, capable of adapting or conquering "nature." Accordingly, they emphasize unions of man in society as being manifestations of community of ideas and the most effective way of asserting the power of ideals; and they readily become what may be called societists—to adopt a term that will cover the belief in the potency of social activity and institutions. For reasons that will become clear when materialism is considered, idealists tend to oppose egoism and to favor its repression by the State as representing society. This tendency they may carry so far as to regard society as a true organism, in which the individual mind is subordinated to the social mind. It seems to fol-

low from these tendencies that idealists will logically defend social institutions, and consequently they are essentially conservative. Of course, to those who hold to the opposite philosophical tendency, they will seem to be the radicals; but in a real sense it is those who believe in no supreme rational purpose or divine will, and who regard society as a shifting expedient based upon a mechanical individualism, who are the disturbers. A practical expression of all this is the fact that idealistic thinkers stress morality and duty, and frequently set the good above the "natural." They are apt to appeal to abstract spiritual considerations. Indeed, ethical idealism, which has been one of the phases of idealism most influential in economic thought, is closely related to the more metaphysical idealism described above; Kant's ethics was idealistic, and the golden rule was based upon the assumption that the idea may be independent of the material environment. The idea of the golden rule is that the mind, as an independent factor, and with a recognition of the rights of other minds having other ideas, can decide what ought to be done, in spite of material limitations and clashes of interest. Believing in innate ideas and tendencies, and their potency, idealists generally regard individual men as being inherently different in capacities and as bearing some measure of real responsibility for their own destinies. With responsibility goes power, capable of multiplication by social coöperation, to make their own destinies "by taking thought." In a word, idealism stands for the independent importance of mind and human institutions as opposed to the material environment.

In the ranks of idealists may be placed most Oriental thinkers; Plato and the Stoics, of antiquity; the Neoplatonists, St. Augustine, Thomas Aquinas, and Hugo Grotius, in the Middle Ages; the Englishman, Berkeley, the German philosophers, Liebnitz, Kant, Schelling and Hegel, and the French thinker, Comte, in more modern times.<sup>1</sup>

<sup>1</sup> Naturally there are many points of difference among idealists, as some tend toward dualism (Plato) while others tend toward monism (Berkeley); some toward agnosticism (Kant and Comte), others not.



The materialistic tendency, on the other hand, not only regards matter as existing independently of mind, but may go so far as to deny the existence of anything but matter. If materialists do not go so far, they at least regard physical facts as determining mental processes. This tendency is logically associated with the theory that ideas come into existence only through the senses as stimulated by matter. Instead of assuming a supreme mind whose rational purpose dominates the world, they hold to a mechanical concept of nature and regard the world as ruled by laws of matter. Naturally, therefore, materialists will tend to regard man as dominated by his natural environment, and we can see the reason why those who hold this philosophy are generally individualistic<sup>1</sup> and *laissez-faire*. If matter alone counts, then it is easy — to say the least — to believe that all men being made of the same clay, are naturally equal; and that men, being determined by sensations and acted upon by the same forces, will tend to act in the same way. The state itself, far from being the expression of common ideas, is a mere aggregation of atomic individuals made necessary by the material nature of man (Hobbes). Man cannot presume to dictate terms to nature; therefore, *laissez faire!* In any event, the forces of nature will at last have their way. Let things alone, that they may freely rule and that the natural order may establish itself. Thus, the cry often is: "Down with human institutions!" Under the sway of materialism, individualism became an effective factor in political and economic thought toward the end of the Middle Ages. The thought of its adherents has been the ferment that has led to the dissolution of inherited religious and moral systems and to the casting off of outlived cultures.<sup>2</sup> It is easy to understand why materialism would replace concepts of ideal and spiritual good and of abstract duty by appeals to the "natural," tending to mean by "natural" what seems to be mate-

<sup>1</sup> Cf. Bonar, *Philosophy and Political Economy*, chapters on Epicureans, Hobbes, Locke, etc. But, on the other hand, many phases of socialism are based upon a similar philosophy, — though perhaps illogically so.

<sup>2</sup> Schmoller, *Grundriss der allgemeinen Volkswirtschaftslehre*, p. 71.

rially necessary. They have thought most of the immediate material result, calling it utility, and the greatest material good for the greatest number of atomic and nature-dominated individuals, has been their goal.

Naturally, materialism finds expression in ethics. No materialist could logically be content with the golden rule, as taught by Christ, as the basis for an ethical system. Rather we find the thoroughgoing materialist formulating his doctrine of right and wrong with an eye to the problems of adjustment to material environment, advocating that men do unto one another such things as will enable them to survive, and finding in survival the test of right.

The leaders in this school of philosophy have been such men as the Sophists and Epicureans in antiquity; Hobbes, Locke, and Rousseau, in early modern times; and the French Encyclopedists and Bentham, a little later. Aristotle, in maintaining that the sensible world must furnish the material for thought and that ideas come only through the senses; and John Stuart Mill, in his earlier thought, may also be said to show a materialistic tendency.

One interesting implication of the preceding philosophical points of view is the attitude toward the future and progress. Idealism tends toward optimism; materialism tends toward pessimism. These tendencies are exemplified in the well known pessimistic strain that is found in British materialism and the equally apparent optimism of continental writers having idealistic leanings — or, at least, being foes of materialism. The logical connection between these two sets of philosophical tendencies, is to be found in the fact that one's hopefulness of progress and reform must be affected by one's belief in the power of man to change conditions and direct development. To be sure, one may rely upon the blind working of natural selection to bring about a future condition which one may "hope" will be better than the present. But, unless one assumes some ideal and the existence of innate tendencies in man toward this ideal, — which means idealism, — one's hope must be relatively faint and

conditional and could hardly be called optimism; and the present and the immediate future may seem harsh and forbidding. Certainly thinkers, whether economists or not, who assume that the human mind can rise above the forces of material environment and who believe in the effectiveness of man-made institutions, can consistently assume an attitude toward the future that would ill befit those of a more materialistic tendency.

Closely related to the contrast between pessimism and optimism, is that between the acceptance and non-acceptance of the doctrine of the indefinite expansibility of human wants, or of the indefinite sum of human satisfactions. Though few economists have set forth such fundamental premises as this, still it is apparent that the Classical economists assumed the truth of this doctrine and that it — along with the principle of population — was essentially connected with their pessimism; for otherwise, in the face of diminishing returns, it would not be necessary to push production to such lengths as they contemplated. They could assume that exchange value would always measure utility and be the criterion of wealth, only on a doctrine which would insure that the intensity of desire for goods would be maintained at a point considerably above zero; for, beyond a certain point, the total supply of any good will decrease in exchange value while increasing in utility, and if desires were satisfied, goods, however useful, would not be wealth. The materialistic cast of this doctrine is derived from the dependence of mind upon matter which it assumes: Human wants and satisfactions are thought of as having a "natural" tendency uncontrolled by judgments; and these unlimited human wants clash with a limited material environment, and must yield.

Idealists, on the other hand, conceive of judgments in control of physical facts — or at least independent of them — and accordingly do not accept the necessity of unlimited wants. In fact, they are prone to have some ideal of what is "good for" man or is "needed" by him with the corollary that beyond this he need not go in his consumption. To

maintain this ideal the intervention of the State may be deemed desirable. This is illustrated by the thought of Socialists and of Sismondi.<sup>1</sup> Also it is manifest in the work of Malthus, who found difficulty in reconciling a materialistic law of population with an idealistic "moral restraint" upon procreation.

An interesting corollary is the attitude toward overproduction: materialists, believing in unlimited expansion of wants, argue that overproduction is impossible. The idealistic tendency is to set some ideal limit to consumption and to call anything exceeding that limit overconsumption. Of this, one can find good illustrations in the writings of the French economist, Sismondi.

Value being the heart of Economics, the economist's philosophy is bound to shape his value theory. The age-long, fundamental antithesis between idealistic and materialistic tendencies in thought finds no clearer expression than an economist's statement that value may be defined as the measure of nature's power over man; utility as the measure of man's power over nature.<sup>2</sup> This thinker means that value in exchange is a function of the resistance offered by physical facts to the utilization of matter by man. That he is highly idealistic is apparent from the fact that he regards man as "acquiring dominion over nature." He believes that wealth consists in such dominion and that it increases with abundance. Consistent idealists are subjective in their theories of value, treating values as men's estimates of the importance of things for human purposes. The writer just mentioned refers to "the cause of the existence in the human mind of the idea of value, which is simply our estimate of the resistance to be overcome before we can enter upon the possession of the thing desired." Materialists, on the contrary, tend to formulate their definitions of value in objective terms, making value a quality of material things and defining it as power to exchange or quantity of goods commanded in exchange. We find corresponding differences

<sup>1</sup> See below, pp. 363-364.

<sup>2</sup> See below, p. 280.

in theories concerning the determination and function of economic value. Idealists regard consumption as a means, making wants — or, as they are wont to say “needs” — a function of activity. Demand depends upon states of mind and judgments; nor are these mental facts mere reflexes of material necessity. Production, too, is desirable activity, and is to be regarded as an end by man. But consistent materialists consider consumption as the end of economic activity, and utility as the goal (utilitarianism). Accordingly, demand depends upon material things, and arises in states of consciousness that are induced by sensations that are caused by physical facts. Naturally materialists are most at home in discussing demand as limited to the needs of the material body — food, clothes, and shelter. Production is regarded as a means to the end, consumption; and cost is its salient characteristic. And the significance of cost is that it measures the dependence of man upon the material; wherefore, if value is determined by cost, and man’s activities are determined by values, one must conclude that the material is dominant.

It is all too common for economists to be inconsistent, and one need not be surprised to discover vicious mixtures of idealism and materialism. Thus we shall find one school reasoning as though material goods (utilities), as causes of sensations, determine values and at the same time assuming that worth judgments (subjective values) sanction costs, *i. e.*, the mind determines action without limitation by cost. And, again, we shall find another school arguing that material forces are inevitably driving us to a cataclysm from which we will be rescued by adopting a form of social organization known to the school!

It is even possible that, though some of the points taken as indices of philosophical tendency are more closely connected with the tendency indicated than others, a given thinker might hold views that ordinarily characterize opposing tendencies without inconsistency: for example, might not one be a pessimist and also believe in the natural unequal-

ity of men? There is also a sense in which "extremes meet." But it is a fact that the two groups of ideas here distinguished have been associated separately and that, in their ordinary meaning, and considering their bearing upon the present and future, they are logically so associated.

Again, one may well question whether the particular tendencies toward optimism and pessimism, cost or utility theory of value, and the like, are after all caused by the theorist's belief in any metaphysical doctrines. Certainly this question will often be answered in the negative if a conscious adherence to the school, accompanied by a realization of the full significance of its doctrines, is meant. But that is not the point. The materialistic tendency may be unrecognized by the writer in question and be inferred by the critic only as a result of searching analysis. Surely the tendencies above distinguished must affect all thought concerning human activity, for such activity is a function of judgment and physical fact, mind and matter, man and environment;<sup>1</sup> and a man's thought may be classed as well on the basis of his conclusions concerning economic value as concerning any values.

It must not be thought that materialism and idealism are unrelated and independent of one another, nor that either can be taken alone as containing the truth. These two philosophical tendencies represent two sides of human social life, and they constantly react upon one another. They are indicative of what has always been the most fundamental contrast in economic thought, that between "man," regarded as an independent element separate from land, and "nature." And, like man and "land," mind and matter may be truly regarded as interrelated and reacting upon one another. Thus, when we say that idealism is related to the institution, considered as embodying a human ideal, and is conservative, we must remember that reasonable idealists do not uphold the letter, but the spirit of the institution; and

<sup>1</sup> This is true even if these dualisms be regarded as unreal, and the two members as really one.

thus, under changing conditions, material factors enter — through the door of realism — or the institution loses its efficiency. The outside is let in. It must be let in to preserve the institution. On the other hand, materialism, in opposing institutions and denying man's power to dictate terms to nature, must not be thought of as merely negative and unrelated. The negative is always related to the positive. Individualism does not necessarily mean non-organization. In their relation to one another, the two philosophies are analogous to man and "nature," heredity and environment; and each reacts upon the other in a similar fashion.

In criticism of the two philosophical tendencies, taken separately, it may be said that neither solves the problem of the relation between mind and matter, man and physical environment; for to deny the independent existence of the one or the other is no answer. More particularly, the materialist, as a result of his attempt to reduce everything to terms of matter or physical fact, tends to take too narrow a view of mental and moral forces, and the initiative and power of man's mind; while idealists underestimate the importance of physical facts as limiting and directing the acts of the mind. The former are prone to overvalue reason regarded as a sort of mechanical combination of sensations based on physical facts; while the latter are equally prone to set up ideal postulates which run counter to experience. Of special interest to students of social science are the criticisms based on false notions of society and the relation between society and individuals. On this score consistent materialists lay themselves open to the charge of undervaluing the force of society, an attitude logically associated with a disbelief in the potency of social institutions. Consequently their influence operates unduly to restrict the field of collective social action. Idealists, on the other hand, go to the other extreme. By conceiving of the individual (his mind) as subordinate to other individual and mental and spiritual forces, they frequently argue as though the individual exists for the sake of society.

Every thinker, economist or not, must at some time or other, put questions to himself which amount to asking: Are you tending toward idealism or toward materialism? What is the significance of your point of view as to the relation, existing and potential, between mind and matter, human reason and physical environment? Or, if the attempt is made to attain the truest point of view of all by bringing to a synthesis the elements of truth in idealism and materialism, the question always remains, where shall the line be drawn?

II. **Method.** — Broadly speaking, the history of science in general reveals two distinct methods, two processes by which truth is sought. These are commonly called inductive and deductive. There is a method which is neither inductive nor deductive in the technical sense of the terms, and which may be called the statistical method.<sup>1</sup> This last, however, is, in the final analysis, a combination of the first two. In fact, one can scarcely follow either method to the absolute exclusion of the other, for they are complementary. Yet with some economists, deduction so predominates that their method is called deductive, and vice versa. Most thinkers, through some natural bent of mind, seem to follow one method more readily than the other.

The deductive, or "isolating," method is that which works from the general to the particular by mental processes of

<sup>1</sup> Schönberg, *Handbuch d. Pol. Ök.*, 3 Band 2, p. 206, art. by Rümelin. Also, Oncken, *Geschichte der National Ökonomie*, p. 9, distinguishes (1) "die exacte oder philosophische, (2) die historische oder besser historisch-statistische, und endlich (3) die historisch-philosophische, 'welche einen synthetischen Character besitzt.'" Quesnay, Ricardo, Von Thünen, Jevons, etc., pursued the first; the Mercantilists, Müller, List, Hildebrand, etc., followed the second; Aristotle, Smith, Marx, and Kant illustrate the last. Rümelin in the able discussion of this point just referred to properly distinguishes between the inductive and the statistical methods, on the ground that the former deals with classes or kinds of which one thing or case can be taken as typical and made the basis for induction, whereas in statistics as a method pluralities are dealt with which have some distinguishing character in common, but may differ more or less as to other features. This makes analysis necessary. Thus we may oppose the statistical method to the inductive or to the deductive method taken alone. It seems, however, that the difference lies in the fact that the statistical method combines *both*, only thus making a peculiar method.



analysis. In its practice, a knowledge of the forces or conditions affecting a problem is assumed, and the results are inferred according to certain logical principles; though, when most effectively used, observations are made to test the validity of the assumptions as to forces and conditions and to verify the conclusions reached. This method sometimes leads a thinker to look within himself for his premises and to draw upon the concepts and judgments of his mind. Sometimes such thinkers maintain that sufficient premises can be drawn from "common experience," or "familiar facts," and then they are apt to depend upon abstract, unverified "natural tendencies." Thus Richard Whately, Archbishop of Dublin, argued that Political Economy needed no collection of facts.<sup>1</sup> And when, some years ago, an attempt was made to organize a society for the study of economic phenomena in an American city, the organizer was constrained to write, "The opinion prevails far too widely that political economists must be mere doctrinaires, and must contend for some set of opinions and some course of policy. Critical study of phenomena is as unpopular as free thinking in religion."<sup>2</sup>

It is this extreme type of deductive method that gives rise to what the German economist, Knies, has called absolutism of theory. God and the mind are unchangeable, sometimes runs the argument, hence deductions drawn from the nature of God and of the mind are of the same absolute character. If drawn by correct processes they are good for all times (perpetualism) and for all places (cosmopolitanism). "Political economy," said an English economist of a former generation,<sup>3</sup> "belongs to no nation; it is of no country; it is founded on the attributes of the human mind, and no power can change it." And it was a similar spirit that led a more noted English economist, Torrens, to state that the period of doubt and controversy was passing away,

<sup>1</sup> *Political Economy*, IX, pp. 148-150.

<sup>2</sup> Prof. Folwell, Johns Hopkins University Studies, Vol. VI, p. 7.

<sup>3</sup> Lowe (Robert), "Recent Attacks on Political Economy," *Nineteenth Century*, November, 1878.

so that within a generation all men might be expected to believe alike in economic theory.<sup>1</sup>

Of course, such conclusions are extreme, and represent an abuse of method, the trouble lying in the over-abstract character of the premises and the absence of verification of results; but they serve to point the lesson that pure deduction is, in economics at least, so dangerous that its employment may be regarded with something akin to suspicion. Striking instances will appear in the thought of economists to be treated in these pages.

There have been many revolts against this method of thought. Socrates<sup>2</sup> and Bacon led such revolts in their days. About the middle of the last century, too, there arose a veritable insurrection led by thinkers of the so-called Historical School. These men, most numerous in Germany, stood for the inductive method, that is, the method that works from the particular to the general and leads a thinker to look outside himself to the external world for facts to serve as the basis of empirical laws. This may be called the method of observation. The Historical School, as will be seen more in detail, denied that economic doctrines, especially if looking toward application as industrial policies, are good for all times and all places. Human nature itself, they urged, is not unchangeable. The assumption of deductive economists, that men are guided in their economic activities by self-interest, they refused to adopt as a premise until it had been established inductively by observation of the phenomena of actual life and of the manifestations of human motives. Also, they insisted that such conclusions as that

<sup>1</sup> *Essay on Production of Wealth*, 1821.

<sup>2</sup> True, Socrates told man to study himself. But in his day that was a step in the direction of the concrete and inductive. The apparatus and method for the study of nature were not developed, and the abstract speculation of his time was largely concerned with the actual physical universe, etc. It was in Bacon's spirit, then, that Socrates urged observation in study of man. Induction works out from the observation of special individual cases to the general rule or "law" which explains and which may serve as a basis for deductions. Socrates himself was both deductive and inductive. He objected merely to the exclusive and abstract use of deduction.

free trade and division of labor are advantageous or that wages and interest tend to become equalized among different industries, are questionable, and can be established only by the collection of many particular cases drawn from different places and times.

Here, too, we find extreme types, — types which, instead of excessive use of abstraction, become lost in concrete cases and become so interested in verification that they discover little of principle. Though serving as a valuable corrective to the abstract dogmatism of the Classical economists, the thought of those economists who come nearest to using pure induction, by its barrenness of generalization, shows the danger of a one-sided use of the method of observation.

As will appear further on, there has been much debate, especially in Germany, over the relative merits of the two methods; though few, if any, now deny that each has its place. In fact, the disputes seem generally to have been based upon differences in judgment as to the scope or the completeness of economics. Those writers who make economics deal chiefly with such subjects as theory of value and money — especially if inclined to regard the science as nearly complete — make large use of deduction. And properly so. In dealing with such a question as the incidence of taxation, for example, observation and induction would, until very recent times, at least, have been relatively powerless; and the same may be said of the determination of the "shares" in distribution. When, however, economics has been regarded as having a very broad field, especially if including practical political and ethical considerations; or when it is taken to be an applied science, there is apt to be a feeling that abstraction must leave out so much that it will become over-heroic. It is quite true, moreover, that in dealing with such subjects as poor laws and tariff protection observation and even experimentation are practicable. Also, there is less likelihood that the science so considered could be regarded as complete; consequently the tendency is to depend upon induction to establish new premises or to verify

old ones. More facts are called for, and history and statistics are the natural recourse.

As one looks back over the course of economic thought and examines its changing methods, one is reminded of attempts that have been made to distinguish certain stages in the evolution of human thought in general, notably the three stages of Comte. These stages were called by Comte<sup>1</sup> the theological, the metaphysical, and the positive. In the first stage men seek a "cause" for phenomena, and find it to lie in the immediate action of supernatural beings. In the second, one great entity, "nature," is substituted as the cause, and the phenomena are said to be due to abstract "essences" or forces within the objects, but separate from them: sleep is caused by a "soporific principle"; water rises in the tube because "nature abhors a vacuum." In the positive stage, men classify phenomena and establish sequences in the nature of cause and effect; they discover quantitative relations and seek to represent all phenomena as aspects of a single general fact. During the theological and metaphysical stages, the deductive method is predominant. Early investigators may be regarded as overwhelmed by a multiplicity of facts, to gather together and classify which required time. Meanwhile it was necessary to regard each fact as more or less isolated — which left the mind's desire for unity unsatisfied, — or seek an explanation from within the thinker's own consciousness. The result was the dogma that it is God's will, or some metaphysical law of "nature." Those who thus traced all phenomena to a few easily grasped "causes" bore everything before them.<sup>2</sup>

The triumph of such abstract deductive methods was only temporary. Becoming weary of empty speculations, as their slight foundations were perceived, men turned to follow those who confined their attention to the knowable and

<sup>1</sup> *Positive Philosophy*, Chap. I; Martineau's translation, p. 26.

<sup>2</sup> Cf. Hobhouse on "Comte's Three Stages" in the *Sociological Review* for July, 1908.

attempted to explain that by more rational and concrete methods. Thus there came about a condition similar to Comte's positive stage.

It is, however, improper to speak of these methods as stages in the sense of their following one another in chronological order; for they overlap, and cases may be found of the contemporaneous existence of all the stages, even in the field of a single science. There are "theological" economists to-day, perhaps, and certainly there are economists whose mode of thought places them in the metaphysical stage. An extreme illustration will serve to make the meaning clear. The American economist, Henry C. Carey, in speaking of the Malthusian theory of population, asks how a good God could allow such things as it teaches. He declares the doctrine incompatible with God's character; therefore it is untrue. Of course he does not stop here in his argumentation, but the point is that he introduces this reasoning as an essential support for his ideas. Political economists of the metaphysical type, a type preëminently English, tend to deduce all economic phenomena from so-called fundamental principles of human nature, axioms, and definitions. Their earmark is a certain use of the word "natural." Glib explanations that this or that is according to a law of nature or that human nature is thus and so, are the danger signals. The legal thought of the past generation is a notable lingering place of this taint; and those economists who argue about "natural rates" (for wages, railway charges, etc.) maintaining that competition is natural, for instance, show a similar tendency. As already stated, the method of thought of such men is necessarily deductive.

It remains to be observed that cycles in method seem to have existed. The deductive or philosophical-abstract method prevailed in all early economic thought of a formal character that has been recorded. Then the Mercantilists and the Kameralists of the sixteenth and seventeenth centuries showed some tendency toward an inductive, though rather empirical, method. But the early French economists and

Adam Smith were primarily deductive, and the "Epigones" who followed degenerated into dogmatism. The early historical economists then arose as an inductive school, perhaps even going to extremes; and, after a generation given to the collection and comparison of facts, the need for deduction became effective. The Austrian school of economists and Professor Marshall, in England, then came to the front; but their method is not that of the older deductionists, being based upon the preceding era of induction and largely free from theological or metaphysical tendency. The cycle has not been a circle, but a spiral, rising to higher planes. At the present time economists are largely engaged in concrete investigations, historical and statistical; but numerous treatises are appearing, indicating the concomitant and scientific use of both methods. Induction and deduction, the concrete and the abstract, must go hand in hand.

## CHAPTER II

### THE ORIGIN AND TARDY DEVELOPMENT OF ECONOMIC THOUGHT

THE origin of economic thought is lost in the past. In its simplest form it must have always existed wherever thinking beings sought to gain a living. Economic ideas of any definiteness find their earliest expression, however, in rules of conduct or moral codes formulated by priests or lawgivers. These moral codes, like the Mosaic law, for example, in dealing with man's place in the world, with life and death, and the ends of existence,<sup>1</sup> necessarily touched upon economic ideas. If it be said that customs ruled the early civilizations and that these codes were the expression of custom, the same conclusion holds. The philosophy underlying was broad and simple, and economic concepts were presented with ethics and religion as one whole. Not until group life began to move in the new and complicated ways of money economy did economic ideas begin to become sharply differentiated. It was when problems of colonies, international trade, money, taxation, etc., arose, that the Greeks began to discuss economic questions.

The reasons for the tardy development of important economic ideas among the ancients are significant, for they throw light upon the origin of the science and the factors essential to its growth. These reasons, being partly subjective, partly objective, fall into two great classes, — though the close interrelation between them is noteworthy.

Among the subjective or psychological causes, perhaps the first to be noted is the tendency of the ancient thinkers

<sup>1</sup> Schmoller, *Grundriss der allgemeinen Volkswirtschaftslehre*, S. 69 ff.

to look down upon physical wants. Material pleasures and the gratification of bodily desires were frequently frowned upon. Socrates thought that to have few wants was god-like, and that was the spirit of the Hindu people. Where such an attitude prevails, the development of a science which deals with the means of gratifying wants is difficult. It implies a disregard for the material.

In association with this disregard for material considerations it was characteristic of ancient thought concerning social matters that a dominant place was given to the moral sanction. Then, as now, ethical and economic ideas were closely interrelated. To-day, however, we consciously separate the two, and often recognize economic considerations as the controlling factor, calling that right which is deemed to be conducive to material advantage and the gratification of our expanding wants. The ancient thinkers were less prone to take their wants seriously, as ultimate considerations, and sought happiness through the "good" life rather than the full life.<sup>1</sup> They thought happiness could be reached more directly, as it were, without the elaboration of that mass of means which we call wealth. This fact was no doubt partly due to the prevalence of absolute authority, either in the shape of family, local or central heads, whose "thou shalt" was law, or in the shape of custom. Custom was a paramount force limiting choice and competition, and tending to conceal the importance of economic motives. In short, there was more speculation about morals than about economic life. Ancient philosophy in its social aspects was simple, the economic and ethical values being little differentiated, and under the circumstances the whole was pervaded by a moral tone.

Part and parcel of the subjective attitude of ancient economic thought is the fact that some of the interests most conducive to economic study were especially deprecated. One of the most fruitful sources of economic speculation has been the earnest desire to better the condition of the

<sup>1</sup> E.g., the "full dinner pail."



laboring classes. But, in general, pagan philosophy teaches that industry, except, perhaps, in agriculture, is degrading to body and intellect. Artisans belonged to the lowest caste, and during the greater part of their history the Greeks and Romans despised the laboring and trading classes. Aristotle argues that in the best government, where the citizens are all virtuous and happy, "none of them should be permitted to exercise any low mechanical employment or traffic, as being ignoble and destructive to virtue;"<sup>1</sup> and Plato, in treating of the ideal state, deems it not worth while to concern himself with the trading and artisan classes. The above quotation from Aristotle goes on to say that those destined for public office should not even be husbandmen, for leisure is necessary to improve in virtue and fulfill one's duty to the state. This suggests that his disapproval of labor arises in part from other grounds than its inherent baseness, namely, from his belief in the expediency of leisure. This side of the philosophers' attitude toward labor has often been overlooked. When it is remembered to what an extent the development of political economy has gone hand in hand with a recognition of the importance of labor, the significance of the preceding ideas appears. Adam Smith ascribes to labor so much, that the socialists profess to have learned from the *Wealth of Nations* to attribute all value to labor, and to demand for labor the entire product of industry.

The same general point concerning indifference or aversion to economic phenomena might be made with regard to financial matters, though with some exceptions.

The omnipotence of the state in antiquity and the ascendancy of purely political interests are other factors retarding the development of economic thought. Where political speculation, as such, absorbs the attention of thinkers, economics remains in a subordinate place. While the mere fact of the dominance of the state and absence of individualism does not seem necessarily to preclude economics,

<sup>1</sup> *Politics*, VII, iv.

but rather to limit the field for economic speculation<sup>1</sup> to matters of public interest, it does result in a one-sided viewpoint. Certainly Economics did not come into existence as a science until the importance of the individual had been realized in a different way than ever it was in antiquity.

So far as it was the idea of the ancients to gain wealth by conquest and forced labor, another subjective force working against the evolution of economic thought may be distinguished. This idea — and it played no small part in ancient civilizations — is not in harmony with the aim of political economy, which seeks the laws that increase wealth by the encouragement of domestic production and by the peaceful exchange of domestic products for foreign goods.

Finally, among subjective reasons, must be mentioned that tendency in men which leads them first to busy themselves with the remote. That "familiarity breeds contempt," while "distance lends enchantment," is true in the evolution of science. As Sir Henry Sumner Maine remarks, in discussing family types in certain countries, "natural families have not been as carefully examined as could be wished; they have not the strangeness of the house community in the eyes of the observers."<sup>2</sup> Wonder and surprise are effective causes for interest and study.<sup>3</sup> Remote and mysterious things arouse our curiosity, leading to hazardous mountain climbing and quests for the north pole. So astronomy was the first of the natural sciences, and to this day many men by their gifts for astronomical research illustrate the same attitude. Economic phenomena, especially in the days of relatively static and simple economic life, were slow in arousing interest. Because of their nearness and the general superficial familiarity with them, they were not singled out for special study.

<sup>1</sup> The distinction between those factors which prevented or retarded and those which merely modified or determined is to be observed. The same factor may have both kinds of effect. The modifying, directive aspects of these and other factors will be discussed below.

<sup>2</sup> *Early Law and Custom*, VIII, p. 243.

<sup>3</sup> Adam Smith discusses this general idea in his essay on "The Principles which lead and direct Philosophical Enquiries, Illustrated by the History of Astronomy." (*Works*, V, pp. 55, 88.)

From the *objective* point of view, economic thought was hampered in two general ways: the phenomena were lacking, and attention was called from such economic phenomena as there were to other fields. To put it in another way, economic phenomena were deficient in number and in weight, that is, absolutely and relatively.

Early civilizations generally flourished in warm and well-watered regions where it was not difficult to get a living. The thinkers of such civilizations ordinarily belonged to or were dependent upon a dominant class supported by a servile population. Under such circumstances, the problems arising out of scarcity and labor and abstinence were given scant attention. Economic values required little study.

The subject matter of Economics, as a social science, is human relations. So far as the production and distribution of wealth are directly involved, it deals with relations between individuals, between households, between states, and the reciprocal relations which in turn arise among these various units. Now this great complex of relations did not exist in the past to anything like the same extent that it now does. Especially simple were the relations between states, and those between individual and state.

More concretely, division of labor was not carried very far. An independent domestic economy means a large degree of economic isolation, and this characterizes the states of antiquity. Only with the growth of division of labor and exchange could economic relations grow in number and significance.

Still more concretely, the problems of public finance were relatively unimportant. The revenues and expenditures of the ancient Grecian states, for example, were comparatively insignificant. When the Peloponnesian War began, the entire revenue of Athens amounted to about 1000 talents, or a little over \$1,000,000.<sup>1</sup> This would be but a bagatelle in the budget of a modern state. The French budget for 1909

<sup>1</sup> Blanqui, *History of Political Economy*, p. 13. Taken from Grote, VI, p. 10.

estimated the revenue of the state at 3,973,265,048 francs, say \$790,000,000, and the expenditure at 3,973,035,678 francs. The total estimated ordinary receipts of the United States were about the same. The financial operations of Rome were, of course, much larger than those of the Grecian states, but they were far less complicated than ours. War was in general self-supporting, and even yielded a revenue in the shape of booty and tribute. Public debts like those of the modern nation were undreamed of, and such taxes as existed were "farmed" out to be collected by private contractors. When one recalls the important part public finance has played in economic thought, as seen in the careers of Sully and Colbert, for instance, and in the United States after the Civil War, one realizes that a great stimulus was lacking. Or take foreign trade. International commerce gives rise to many interesting questions of political economy, but it was not encouraged by ancient states, whose ideal was national exclusion. Sparta was such a state; and Plato's ideal states, even the second best, limited intercourse with foreigners, the *barbaroi*.

The objective factors, which, by attracting men's attention and energies, threw into the background the consideration of such economic phenomena as existed, also embraced certain social institutions and customs, *i. e.* subjective factors that had become crystallized. Practical politics, war, religious activities, filled a large part of men's lives. The relative lack of security both for life and property which characterizes ancient times was also an important factor in retarding exchange and saving, and economic activities in general.

Thus, the phenomena being largely lacking, and the spirit or mental attitude indifferent or hostile, it is little wonder that the peoples of antiquity not only did not evolve a body of economic doctrine, but even showed a paucity of economic ideas.

In what has gone before, reference has been made to the ancients alone. Much that has been said, however, is appli-

cable to peoples of other times. Although it was formally quite different, during the period of the Middle Ages, as will appear in the chapter dealing with that time, the situation was not dissimilar, whether regarded subjectively or objectively. On the one hand, the teachings of the Church were hostile to trade; on the other, division of labor and exchange were undeveloped, and man's energies were occupied in reconstructing political institutions and in developing the arts.

Then came the era of Reformation and Renaissance. The attitude of men toward the world and material things was changed, while economic relations were multiplied by discoveries and inventions and the extended use of money. More and more men thought economic thoughts, and ere-long the science of Political Economy was born.

**B. ECONOMIC THOUGHT BEFORE THE  
SCIENCE OF ECONOMICS**



## I. ECONOMIC THOUGHT OF THE ANCIENTS

IN the chapters which follow next, it is not intended to convey the idea that a science of Economics existed prior to the eighteenth century. Quite the reverse. These chapters are to deal with fragmentary economic thoughts, or with economic thoughts which are found imbedded in ethical and religious systems. Yet these thoughts are the stuff of which the later economic theories were partly made; and, although from the point of view of economics they hail from a pre-scientific period, their importance as a factor in determining the course of the science may not safely be overlooked. Accordingly, the reader is asked to direct his attention to the following sketch and brief analysis of the economic ideas which obtained in the ancient and medieval worlds.

Even if the present work were limited to the history of Economics as a science, it could not well omit some discussion of the origin of the science. To suggest a few illustrations: The ideas of the ancients concerning wealth and wants have ever stimulated idealistic thoughts among economists living in periods more given to materialism: such ideas may be traced in the history of Socialism, and as "nature philosophy," have affected all social thought. Even to-day, one can scarcely discuss interest in any extended way without going back to the Bible and Greek notions. How could the Classical political economy of England be understood without a knowledge of the Mercantilist period, including such men as Locke and Petty? And an understanding of these men takes one back to the medieval period, which period, roughly speaking, is half ancient. Kameralism has been the mother of modern German economic thought, and Kameralism was in large part the offspring of ancient ideas and notably those embodied in the *Corpus Juris Civilis*.



## CHAPTER III

### ORIENTAL ECONOMIC THOUGHT, ESPECIALLY THE CONCEPTS OF THE HEBREWS AND HINDUS<sup>1</sup>

SOME general points of contrast may doubtless be found in comparing the economic thought of the Orient with that of the Occident. For example, within certain racial or national bounds, nearly all Oriental peoples will be found to have had ideals of a closer brotherhood than have obtained in western countries. Eastern peoples, too, have generally tended to a less materialistic view of life, not striving eagerly for industrial progress: moral or religious codes have usually played a greater part in shaping their thought.

Much of the contrast that has been drawn, however, would not have held for the remote past when the civilization of the west was young, and both Orient and Occident were in something like Comte's theological stage; while so diverse are the numerous peoples which come under the head of Orientals that truly general contrasts are very few, and are for the most part so broad as to lack force and precision. Believing, then, that it is quite impossible to generalize with any great significance concerning Oriental economic ideas as a whole, it is the purpose simply to state what is known about such ideas as they were held by the Semitic and Aryan peoples of the west and south of Asia. To lump Chinese, Medes and Persians, Jews, Japanese, Arabs, Hindus, even Egyptians, together in one topic, as is sometimes done,<sup>2</sup> is misleading, to say the least; but those concepts of the Hebrews and of

<sup>1</sup> Cf. Cooke, "Old Testament Economics," in *Economic Review*, XIX, no. 4; Marigny, *Histoire de l'Économie Politique des Anciens Peuples*; Michaelis, *Commentaries on the Laws of Moses* (Eng. trans., London, 1814); *Jewish Encyclopedia*, articles on agriculture, usury, etc.; and the following footnote references.

<sup>2</sup> E.g. Cossa, *Introduction to the Study of Political Economy*; Ingram, *History of Political Economy*.

the Hindus which have clear economic significance may be briefly stated. Then, if there be any common ground, some precise generalization may follow.

It may be observed in advance that the subject matter furnished by the ideas of these two peoples has this much in common: it is the economic thought of two Asiatic peoples, both of ancient civilization, and based upon an agricultural economy; and practically all is drawn from the writings of priestly law-givers.

It follows from this latter fact that any idealistic tendencies will be emphasized, perhaps to such an extent that doubt may be felt as to how truly the common thought is expressed. But when one reflects that the lives of these people were largely determined by these writings, this doubt loses some importance. And above all, it is just these writings which have come down to us, exerting a powerful influence all through the Middle Ages and even to our own time; so that, *from the standpoint of the history of economic thought*, their significance is not slight.

Several more or less practical reasons make this particular inquiry worth while. For one thing, there is its value as a study of origins. These peoples were, in a sense, in the childhood of civilization; and, just as psychologists are interested in child psychology, economists may learn lessons from child economics. Or, if it be true, as many believe, that there is a large degree of connectedness in the development of the economic thought of the world, — a degree not generally realized to the full, — the study of early sources gains importance; and, if it is found that at the sources religious or moral sanctions dominate, then the study of the economic aspects of religious or moral concepts and codes becomes closely involved. While there is no logical necessity for treating Oriental ideas as a whole, as do some writers,<sup>1</sup> it is essential to analyze the thought of the Hebrews in this respect. No one will deny that many of our religious and moral beliefs are traceable directly to Hebrew thought, and

<sup>1</sup> E.g. Kautz, *Geschichtliche Entwicklung d. National Oekonomie*.

that these beliefs have in the past had, and will in the future have, considerable influence over economic ideas. A large part of these have come down to us through Christianity, which in its origin is an essentially Oriental religion.

This study, too, will illustrate and emphasize the importance of the relationship between economic thought and morals and ethics, a relationship which, without being confused, needs to be borne in mind by the economist.

And of some practical significance is the fact that light may be thrown upon economic concepts which to some extent obtain in the Orient even to this day.

**Economic Thought expressed in Rules of Conduct, Laws, etc.** — As has been said more than once, the central idea of Hebrew government and education was the fulfillment of the law, the commands of Moses or the prophets forming the standard in all thought and action,<sup>1</sup> and the situation was quite similar among the Hindus. Now such a situation meant a minute regulation of everyday life,<sup>2</sup> its economic aspects included, and it follows that the material for this study is mostly drawn from rules of conduct or laws. A study of those regulations of the Hebrews and Hindus which are significant as indicating the character of their economic thought shows that the following subjects were the most important: occupations, agriculture, interest and usury, labor and wages, property rights, taxation, inheritance, weights and measures, adulteration, monopoly, and the poor. All of these topics cannot be treated here, but only those about which the regulation was considerable and of clear intent.

**Usury.** — The Mosaic law forbade lending "upon usury," that is, at interest; it prohibited "usury of money, usury of victuals, usury of anything that is lent upon usury."<sup>3</sup> This applied only to fellow Hebrews, however, loans on usury to strangers being allowable. Mercy in case of loans to the

<sup>1</sup> Conder, *Judas Maccabaeus*, p. 24.

<sup>2</sup> Among the Jews the prophets, however, were generally opposed to such a regulatory spirit, tending to ignore the regulations. See, e.g., Amos vii, 10 ff.; Hosea vi, 6; Isaiah i, 10-17.

<sup>3</sup> Deut. xxiii, 19, 20.

poor<sup>1</sup> was enjoined. Some evidence of development in the law of usury exists, for, in the first pronouncement, interest-taking was forbidden in the case of loans to the poor alone (Ex. xxii, 25);<sup>2</sup> but later — perhaps because of fraud — the prohibition was extended to all Israelites. The exception of strangers must have made loans at interest possible by using such persons as intermediaries. When, in post-exilic days, trade increased and with it loans of capital, the Rabbis made further modifications.<sup>3</sup>

Two kinds of loans were distinguished by Mosaic law: "Thou shalt not give him (1) thy money upon usury, nor lend him (2) thy victuals for increase"<sup>4</sup> (Lev. xxv, 37). Neither is to be thought of as connoting all that the term "interest" does, as used in economics, for they involve no concept of capital, and but an imperfect one of value. The Mosaic "usurer" was merely one who lent things for considerable periods of time, receiving three shekels where he had given two, or three bushels for two.

In fact, the law seems to have desired that lending should be regarded as a form of charity, ordaining that the poor be given loans even though the seventh year, when debts should lapse, were at hand, or though no security were given (Deut. xv, 7-9; xxiv, 13). It must be remembered that such regulation went hand in hand with legislation whose aim was to prevent the alienation of property, and that the seventh and jubilee years, if enforced, would have put lending on a very different basis than is usual.

But the Mosaic law was not maintained in force without modification. The jubilee year was not enforced, and commercial dealings grew. Solomon appears to have been engaged in much trading, and after the return from Babylon,

<sup>1</sup> Deut. xxiv, 10-14.

<sup>2</sup> Cf. Driver, *Introduction to the Literature of the Old Testament*, pp. 35 f.

<sup>3</sup> *Jewish Encyclopedia*, article on "Usury."

<sup>4</sup> No essential difference in treatment appears in the law; but the word "increase," indicating that which was forbidden in the second kind of loan, is different from the one translated as "usury," and this might indicate a different attitude toward the former, as being more liable to fluctuations in value and bulk.

where commercial transactions of many kinds were highly developed, including lending at interest, the Hebrews parted more from the spirit of the old laws. The word meaning "per cent" does not seem to have been used until after the captivity, the idea of interest as a *rate* being found in Nehemiah for the first time; here the prophet exhorted the usurers to restore "the hundredth part of the money, and of the corn, the wine, and the oil, that ye exact of them" (v, 11). An attempt was made to keep the letter of the law, however, and its importance to an understanding of medieval doctrines is well known.

The security for loans, above referred to, was in the nature of a "pledge," and there was some regulation concerning such pledges. One rule might be formulated thus: Thou shalt not demand as a pledge any of thy brother's necessities. For a man's upper garment must be returned before night-fall, and "no man shall take the nether or the upper millstone to pledge: for he taketh a man's life to pledge" (Deut. xxiv, 6). Another rule was that one must not go into the borrower's house and take his pledge, but must let him bring it out; and if the borrower were a poor man his pledge should be returned before the night (Deut. xxiv, 10-13). In the book of Job men are upbraided for taking the widow's ox as a pledge, and for taking pledges when no corresponding loans had been made (chaps. xxii, xxiv).

Among the most striking regulations of the Brahmanic law were those concerning interest and usury. Money-lending by the higher castes was closely restricted. Brahmanas and Kshatriyas could not lend anything at interest, acting like usurers, except to exceedingly wicked persons who neglected their sacred duties.<sup>1</sup> "Now they quote also (the following verses): 'He who acquiring property cheap, gives it for a high price, is called a usurer and blamed among those who recite the Veda.'"<sup>1</sup> In case of loans made without security the following terms were legal: for gold, double value (*i.e.*

<sup>1</sup> *Vasishtha*, II, 40 ff.

100 per cent); for grain, treble the original price; anything sold by weight might be lent at eight times the original value.<sup>1</sup> On security, the following law obtained: "Hear the interest for a money lender declared by the words of Vasishtha, 5 mashas for twenty (Karsha-panas may be taken every month): thus the law is not violated." This meant about 15 per cent per annum. By another provision, 2, 3, 4, and 5 per cent might be taken from the four castes respectively. There was difference of opinion as to a limit for aggregate interest payments, some holding that, in some cases at least, interest should only be paid for one year, others that interest should cease after the principal had been doubled. In any case, "the King's death shall stop the interest on money (lent); and after the coronation of (a new) King the capital grows again," — illustrating the dominance of political considerations.

Various kinds of interest payment were distinguished: there might be compound, periodical, stipulated, corporal, daily, and use of pledge,<sup>2</sup> — corporal interest being that paid in labor, use of pledge referring to cases in which the lender made use of some security, like a beast of burden, for example.

Thus the fact is apparent that among the ancient Hindus interest was closely connected with some concept of a just price; that the rate varied with the caste, and that a wicked man might be bled where another might not be; that the rate varied with the thing lent, loans of money and staple commodities like grain bearing a lower rate than others; and that there was some maximum limit for aggregate interest payment.

One striking similarity between the ideas of Hebrew and Hindu on the foregoing subject must have been noticed, namely, the notion that there should be some maximum for interest payment. At the death of the king or the jubilee

<sup>1</sup> *Vasishtha*, II, 47.

<sup>2</sup> *Sacred Books of the East*, Max Müller, editor, Vol. II, p. 239; *Gautama*, XII, 30-35.

year or the doubling of the principal, interest should cease. Both peoples dreamed of the establishment of a *tabula rasa*, when, to a greater or less extent, debtor and creditor should be equalized. It will be observed, too, that both peoples drew distinctions between borrowers: money or other things might be lent at usury, here to the "stranger," there to the "exceedingly wicked person" or to the lower caste.

**Commercial Regulations and Just Price.**—That some progress was made in reasoning about commercial matters is evidenced by a set of measures directed toward securing justice in buying and selling. Both Hebrews and Hindus had careful regulations against false weights and measures,<sup>1</sup> and against adulteration. Provisions against speculation, monopoly, and the like were even more significant. Raising market prices by speculative means was disapproved of by Rabbinical law, being classed with usury and false weights, and middlemen were not tolerated. The export of necessary articles of food was forbidden, and in time of famine no storing was allowable—all must be put upon the market. Hand in hand with these ideas went a limitation of retail storekeepers' profits to 16 $\frac{2}{3}$  per cent.<sup>2</sup>

The Brahmanic law exhibits similar conceptions. It laid a penalty upon any company of merchants who prevented the sale of a commodity by selling it under its price, and a like one upon those members of such a company who sold an article belonging to the whole company for more than it was "worth," to their own profit. Suggestive of modern commercial usage is the following provision: He who buys unawares in open market the property of another man from one not authorized to sell it is not to blame; but the owner shall recover his property. If, however, he has bought it in secret and under its price, the purchaser and the vendor shall be punished as thieves.

<sup>1</sup> See *Vishnu*, V, 122-127; Amos viii, 4-6; Deut. xxv, 13-15; *Jewish Encyclopedia*, article on "Police Laws."

<sup>2</sup> *Jewish Encyclopedia*, before cited. Such regulations were, of course, post-exilic.

These regulations all point toward an underlying conception of a just price. The things forbidden are false weights, "false" money values (usury), "false" commodity values (monopoly, underselling, enhancing, etc.), "false" profits, and the like. This, indeed, seems to be the normal point of view of a people whose goods and services are not evaluated in markets in the economic sense, and it will be found down through the Middle Ages, with a recrudescence with regard to monopolized commodities to-day. Competitive markets being practically impossible in old Oriental industry, — to this day there is no one price in the Oriental shop, — the consumer was very likely to be exploited,<sup>1</sup> and hence these regulations.

The position of the state with regard to mines and other economic agencies is significant. According to the Institutes of Vishnu, the king was to keep the whole produce of mines;<sup>2</sup> and let the king, so runs the pronouncement, appoint able officials for the working of his mines, for the levying of taxes and of fares to be paid at ferries, and for his elephants and forests.<sup>3</sup>

**Labor and Caste.** — With such a social and industrial organization as was possessed by the old Oriental civilizations there could have been no labor problem in the modern sense. There were wage workers, however, and in regulating the relations between employer and employee some rudiments of labor law were provided. By Brahmanic law, a hired workman who abandoned his work before the term had expired was to pay the whole amount of stipulated wages to his employer and a fine to the king.<sup>4</sup> What had been destroyed through his negligence must be made good to his employer. On the other hand, if an employer dismissed a workman whom he had hired before the expiration of the term agreed upon, he must pay the full amount of wages stipulated and a fine to the king, unless the workman were to blame. From the Mosaic laws little can be gathered.

<sup>1</sup> Charged "unreasonable rates," we would say.

<sup>2</sup> III, 56.

<sup>3</sup> III, 16.

<sup>4</sup> *Vishnu*, V, 153.



As wages are mentioned, there were wage earners, but their payment was probably largely in kind. The chief regulations concerned mercy and justice to the laborer, commanding the daily payment of wages<sup>1</sup> and warning those who oppressed the hireling.<sup>2</sup>

Labor was regarded as honorable by the Hebrews; but no special encouragement appears to have been given to it, except in agriculture. It was not until trade was later developed that attention was paid to the artisan wage worker, the Mosaic law showing almost no regulation of trade.

Perhaps here is the place to mention briefly the economic significance of the caste system as found among the Hindus. It was, as Cossa says, division of labor gone to seed. It stood for rigidity of society and for permanent inequality among social classes, an attitude which means a point of view in economic thought. The four castes, beginning at the top, were: Brahmanas, Kshatriyas, Vaisyas, and Sudras. The functions which the dominant elements conceived to belong to these castes were as follows:<sup>3</sup> Brahmanas existed to study and teach the Veda, to make sacrifices for others, and to give and accept alms; Kshatriyas were constantly to practice arms and protect the world, receiving due reward in taxes; Vaisyas were the husbandmen, tending cattle and tillage being their chief functions, with traffic and money-lending allowable; finally, the Sudra was the artist and artisan, having as his general duty the service of the superior castes. One of the great duties of the king was to keep the four castes in the practice of their several duties.

That some elasticity was possible in this system appears from the fact that in time of distress each caste might follow the occupation of the one below it. In general, however, the most severe separateness was to be maintained, and any man having connection with a woman of one of the lower castes was to be put to death.<sup>4</sup>

<sup>1</sup> Deut. xxiv, 15; Lev. xix, 13.

<sup>2</sup> Mal. iii, 5.

<sup>3</sup> *Sacred Books of the East*, Vols. II and XIV, translations edited by Max Müller: *Vishnu*, III, 26-27, 56-62; *Vasishtha*, II, 13-20.

<sup>4</sup> *Vishnu*, V, 43.

**Agriculture Favored.** — “Although trading gives greater profits, these may all be lost in a moment; therefore, never hesitate to buy land,” runs an old Rabbinical maxim;<sup>1</sup> and the sage author of the book of Proverbs, in a like vein, says, “He that tilleth the soil shall have plenty of bread.”<sup>2</sup> In fact, although an earlier condition in which the shepherd was favored over the tiller of the soil may be indicated by the story of Abel and Cain, it has been well said that agriculture was the basis of the national life of the Israelites, state and church both being founded upon it.<sup>3</sup> The dominant place given to agriculture may be accounted for in part on the ground that the codes, hymns, and maxims of these Oriental civilizations were largely drawn from a time when pastoral peoples were just settling down to an agricultural life, and it seems likely that a more or less conscious purpose of the lawgivers was to fix their people in such a life.<sup>4</sup>

On the other hand, there was a tendency to regard trade and the crafts with disfavor. The Vaisya husbandman stood above and aloof from the Sudra artisan. The Jew came to regard the trader with a considerable degree of contempt, calling him “Canaanite.”<sup>5</sup> To what extent it was cause, or to what extent effect, may be impossible to say, but coupled with this attitude of the Hebrews is the fact that they did not enter into commerce or manufactures to any considerable extent. In the Books of Maccabees husbandry is mentioned, but trade is not. Josephus states that even in his time the Jews were not addicted to trade. There seems to be no evidence that free-born Israelites were artisans prior to the exile, and the crafts were accounted ignoble and left to slaves.<sup>6</sup> It is true that Solomon carried on commerce, but even in this case it was done through the Phoenicians, and by the government rather than the people.

<sup>1</sup> *Yeb.* 63 a.

<sup>2</sup> Prov. xii, 11 (Revised Version).

<sup>3</sup> *Jewish Encyclopedia*, art. “Agriculture.”

<sup>4</sup> Cf. Kautz, *Geschichtliche Entwicklung der National Oekonomie*, p. 97.

<sup>5</sup> E.g. Hosea xii, 7, 8.

<sup>6</sup> Michaelis, *Laws of Moses*, Vol. I, art. xxxviii. But for cases of domestic manufacture see 1 Chron. iv, 21, 23; Prov. xxi, 19-23.

This relatively high esteem for agriculture is, perhaps, not so significant as it would be in a people which had progressed further industrially, but still it remains a noteworthy characteristic of many Orientals in their attitude toward industry. And this affected their regulations both positively and negatively; it meant that much regulation of later times, with the ideas corresponding, was uncalled for; while their laws were hostile to the growth of manufactures and commerce.

**Seventh and Jubilee Years.**—Quite peculiar to the Hebrew law was the institution of the seventh and jubilee years. This institution was based upon the concept of God as a king owning all the land of Israel: "The land shall not be sold for ever: for the land is mine" (Lev. xxv, 23). Thus, to a lawgiver who desired to prevent inequality in wealth, to preserve family and tribal property, and to keep his people attached to their country, it was easy to prohibit the permanent alienation of lands from the original possessor. This Moses did by enacting that every fiftieth year the Hebrews should "return every man unto his possession" (Lev. xxv, 13). It follows that a sale of land really amounted to no more than a lease, and the price necessarily varied with the remoteness of the jubilee year. This was clearly foreseen: "According to the number of years after the jubilee thou shalt buy of thy neighbor . . . for according to the number of the fruits doth he sell unto thee" (Lev. xxv, 15, 16).

Every seventh year was to be one in which the land lay fallow: "But in the seventh year shall be a sabbath of rest unto the land." The Rabbis emphasized the religious intent of the measure; but it seems not improbable that the economic desirability of resting the land was recognized. This provision, which at first referred to land alone, soon was given a broader significance; for, to the end that there should be no poor, creditors were commanded to release their debtors on the seventh year (Deut. xv, 4). Perhaps the most logical interpretation to put upon this command would be

that during the seventh year interest was to be suspended — “he shall not exact it,” — and then it might be connected with the fact that a general fallow would take away the means of interest payment.<sup>1</sup> The Talmud, however, interpreted the seventh-year provision as ordaining that debts should cease, thus making a virtual statute of limitations. When industry and trade increased, it became necessary to get around such a hampering measure by numerous subterfuges or legal fictions: thus wages, loans on pledges, notes guaranteed by mortgage, and notes waiving the right for the one particular case, came to run through one or more “seventh years.”

There seems to be no good evidence that the jubilee year, as such, was ever literally kept; the seventh year apparently was.<sup>2</sup>

**Summary Generalizations.** — Largely, though not entirely, upon the basis of the preceding facts, some broad generalizations may now be made about the economic ideas of these peoples and the underlying philosophy of life upon which their economic concepts rested.

1. Among the most salient characteristics of their social philosophy may be mentioned its simplicity. Being in the childhood of civilization, it is not strange that they conceived of life as a whole. Their social life was in a sense undeveloped, or, better, undifferentiated, and the social sciences were in a like condition. Religion, ethics, law, economics, philosophy, were inextricably bound together.

2. In this aggregate of social concepts the dominant member was religious or moral. In fact, it is roughly true that these Oriental civilizations were in the theological stage, passing in some cases to the metaphysical. There was a dominant priestly class, and it was this class which preserved, formulated, and handed down the traditions that both expressed and limited economic thought. The rules of the

<sup>1</sup> See Michaelis, *Laws of Moses*, Vol. II, arts. 157, 159.

<sup>2</sup> Neh. x. 30. Josephus, *Antiquities of the Jews*, Bk. XIII, Chap. viii, § 1; XIV, x, 6, 16; III, xii, 3.

Brahmanic or Mosaic codes which bore upon economic matters had a religious significance: by following them one gained primarily, not economic well-being, but a right life, a clear conscience, or spiritual perfection. Witness the prohibition of certain foods, and occupations. And the same idea is manifest in the rules of caste. Even when charity was ordained it was in like spirit, leading to an emphasis of the spiritual excellence of the giver above the benefit received by the poor. Or, when the Brahmins thought about poverty and unequal distribution of wealth, they simply attributed such evils to the sins of a previous existence and recommended that they be borne in patience. The idea of fatalism was applied to wealth. No doubt, however, a strong tendency appears, at least among the Jews, to put the secondary consideration of long life and prosperity in the foreground.

3. A characteristic of the situation was the minute regulation of everyday life. The sacred laws of the Brahmanic civilization regulated everything, from the cleaning of one's teeth to one's funeral oblations; and the Mosaic code with its express directions concerning the sowing of vineyards, eating, and trimming hair and beard shows the same tendency. As has appeared above, many institutions which were primarily economic were thus regulated.

4. One of the most striking characteristics of both Hebrew and Hindu economic thought, as it was expressed by philosophers and lawgivers at least, was the conflict it shows between economic stimuli and ethico-religious ideas. Those factors, subjective and objective, which tended to develop economic progress were not in harmony with these peoples' philosophy of life. Among other things, that philosophy was characterized by such a lack of individualism and of materialism, such a disapprobation of industry other than agriculture and relative indifference toward wealth,<sup>1</sup> such a degree of passivity and fatalism, that its dominance made any great industrial civilization impossible.

<sup>1</sup> This was far less true of the Hebrews than of the Hindus, the former often indicating a keen appreciation of the good things of the earth.

(a) Being extremely idealistic, there was an exaltation of the institution and a subordination of the individual, plainly seen in the political system. The state or the church came first, and was everything. "Above all," says Kautz, "as a controlling fundamental of the entire social and economic theory of India can be placed the esthetic self-denial and renunciation, the unreserved recognition and glorification of absolute political despotism, the denial of the personal worth of man" which it possessed.<sup>1</sup> Now a certain degree of individualism seems to have been necessary to the development of economic thought. Without it industry was limited by lack of motive, economic relations were simple, and economic thought largely restricted to promulgating the interests of the ruling body.

Closely related to this condition was the lack of a certain hard-headed materialism which has led the Occident to glorify the material basis for civilization, wealth. Instead of first deifying and then extolling discontent, — "divine discontent," — and continually striving to raise their standards of living, Orientals tended to limit and crystallize their standards, abolishing discontent. Their philosophy did not lead them to analyze happiness into different grades or planes of satisfaction; happiness with them was generally regarded as attained by decreasing wants. This general attitude is one which is not in harmony with the dominant note of our civilization, and it is probable that few Americans really believe that it is easier for a camel to pass through the eye of a needle than for a rich man to enter the kingdom of heaven, unless they be the poor. Between these ideals, as they find expression in Christianity, and Occidental civilization there has always been conflict, and they have become increasingly ignored in our practice.

(b) According to the Vedas, seeking after wealth leads to sin. Even large-scale commerce was frowned upon, and sometimes agriculture itself. The Hebrews, while sometimes decrying, sometimes also praise wealth, and on the

<sup>1</sup> *Gesch. Entwicklung d. Nat. Oek.*, p. 87.

whole by no means show the ascetic spirit of the Hindus; but as a generality the statement holds that compared with the Occident wealth and non-agricultural industry were regarded with relative disfavor or indifference. They saw that riches was not the end; but went further and overlooked its utility as a means.

(c) The element of passivity, or economic indifference, already referred to, is not in itself peculiar to Oriental thought. It is, however, unusually strong there, and its connection with a rather rigid body of philosophy—crystallized, as it were—is, if not unique, peculiar. There it found expression in written codes; there it was part of an effective, long-continued religious system; there *it was actually applied to economic thought and practice*. To what extent this is to be attributed to climate and tropical environment need not be said. There was the tendency to accept wealth or poverty without a struggle: it was God's will, or the reward for the acts of a previous life, etc. This might be termed economic fatalism.

5. Two further characteristics of Oriental thought, which were largely the result of points already touched upon, may be noted next. In the first place, there is its fixity and conservatism. The general aim of social regulation was to maintain the social equilibrium, and here, as elsewhere among ancient peoples, static ideals dominated. This finds expression in the caste system, and in the isolated national life. It is seen in the long-stationary condition of their civilization.<sup>1</sup>

6. To say that the concept of society and social welfare was prominent may seem strange, yet the statement appears true. This concept, however, was but little like our own, for it went hand in hand with a lack of individual rights which sharply differentiates it from present-day ideas. Nor is this point made with the idea of drawing a distinction

<sup>1</sup> Japan not long since, China even to-day, has just awakened from this point of view. These peoples, from Byzantium to Japan, have lived an isolated national life and shown a large measure of national conceit, tracing their origin to the sun, etc.

between Oriental thought and all Occidental thought. The Hindus' laws concerning weights and measures, adulteration, exchange, sanitary practice, and other matters show this concept. Among the Hebrews there were laws providing that broken glass should be buried, that water should not be thrown in the streets during the summer, and that there should be no chickens or dunghills within the city (Jerusalem).<sup>1</sup> Streets were not to be blocked by debris or projecting houses. For encouraging free intercourse, the width of roads was prescribed, the width being greater in the case of highways between commercial centers. And there were regulations concerning weights and measures similar in spirit to those of the Hindus. Thus one may conclude that, though the point of view was quite different, there was a sense of social solidarity expressing itself in regulatory measures which resemble in a way the legislation of recent times.

This fact may be regarded as a concomitant of their idealistic philosophy.

One writer on the history of the Hebrews has much emphasized what he calls the first appearance of Socialism.<sup>2</sup> Socialism, however, is not the word to use. What we find in the Bible is, first, a careful provision for the poor, protecting them from exploitation, from permanent debt, and enjoining free loans and charity; and then numerous attacks by the prophets upon the injustice and oppression of the rich. It may be agreed that the aim of all this was a national solidarity which almost ignored the individual, and it seems that Moses had the prevention of inequality of wealth in mind in making his laws; but that does not make Socialism, and is certainly very far from social democracy. Had the Mosaic law been carried out, the result would rather have

<sup>1</sup> See *Jewish Encyclopedia*, article on "Police Laws." The strong family sense of the modern Jew and his remarkably persistent race sociality are noteworthy, though superficially he often seems a rather selfish individualist. The effect of centuries of abuse must be remembered.

<sup>2</sup> Renan, *History of the People of Israel*, Chap. XVI.



been, perhaps, like a sort of periodically enforced communism.

It remained for Christianity to put the Old Testament ideals on a broader and more democratic basis. Moses, by limiting blood revenge and legislating mercy and charity, took a step in advance; but he only prepared the way for the Golden Rule. Similarly the Old-Testament steps toward equality of property lay back of the more humane and democratic ideals of community held up by Christ and his disciples.

Enough has been said to give a more positive and comprehensive idea of the economic thought of the Hebrews and Hindus than is generally had; and in any case Cossa's dictum that Oriental economic thought "can all be reduced to a few moral precepts about the virtue of industry, temperance, and economy, and about the duty of only desiring wealth for the purpose of worship and charity," is clearly too narrow. It can only be so reduced at the expense of truth.

## CHAPTER IV

### THE ECONOMIC THOUGHT OF THE ATHENIAN PHILOSOPHERS<sup>1</sup>

It is natural to pass from the Orient to Greece. Both by geography and by the character of her people, Greece was closely related to Asiatic civilization. However much scholars differ as to the extent of the contributions made by Asia and Africa to Greek culture, it may safely be said that such contributions were considerable. But, while certain similarities exist, there are important differences; and so directly essential has been the part played by Greek ideas in the development of modern thought that they demand no small share of attention.

**Origin of the State; First Economic Interpretation of History.** — One of the striking facts about the philosophy of certain Greek thinkers is that it rests upon what may be truly called an economic interpretation of history. To be sure, the Athenian philosopher's conception of history was imperfect, and by an economic interpretation is not meant a materialistic one; but with these modifications, the statement is broadly true. Witness the following from Plato: "A State, . . . arises, as I conceive, out of the needs of mankind; no one is self-sufficing, but all of us have many

<sup>1</sup> Some of the most useful special references are: Boeckh, A., *The Public Economy of the Athenians*; Loos, I. A., *Studies in the Politics of Aristotle and the Republic of Plato* (Bul. of the University of Iowa, 1899); Trever, A. A., *A History of Greek Economic Thought* (1916); Ashley, "Aristotle's Doctrine of Barter," *Quarterly Journal of Economics*, November, 1895; Simey, "Economic Theory among the Greeks and Romans," *Econ. Rev.*, 1900; Oncken, *Die Staatslehre des Aristoteles*, 1870-1875; Marigny, *Histoire de l'Économie Politique des Anciens Peuples*; Dubois, *Précis de l'Histoire des Doct. Econ.*, Chap. I, and bibliography there presented. The chief sources are the *Politics* and *Ethics* of Aristotle, and Plato's *Republic* and *Laws*; and these works are available in the excellent translations by Jowett and by Welldon.

wants. . . . Then, as we have many wants, and many persons are needed to supply them, one takes a helper for one purpose and another for another; and when these partners and helpers are gathered together in one habitation the body of inhabitants is termed a State. . . . And they exchange with one another, and one gives, and another receives, under the idea that the exchange will be for their good."<sup>1</sup> The origin of the state, then, is traced to the lack of individual self-sufficiency in the satisfaction of wants, and to the advantage of specialization and exchange. Such reasoning indicates an important step toward the development of economic analysis.

On this point, Aristotle's doctrine is less purely rational. He assumes that an impulse to political association is innate in all men: "Man is naturally a political animal." The genesis of the state is found in the household, which, in its turn, rests upon the inability of male and female to exist independently, and upon the inequality among men which leads to slavery. The household is "the association naturally formed for the supply of everyday wants."<sup>2</sup> Then comes the village, and finally the state: "Lastly, the association composed of several villages in its complete form is the State, in which the goal of full independence may be said to be first attained." The state is formed to make life possible.

**Division of Labor.** — Plato's discussion of specialization and exchange clearly suggests the idea of "division of labor." Indeed, the Greek philosophers' concept of division of labor, while crude, is the ultimate father of the later discussions of Hutcheson, Hume, and Adam Smith. When, however, Plato says: ". . . we must infer that all things are produced more plentifully and easily and of a better quality when one man does one thing which is natural to him and does it at the right time, and leaves other things,"<sup>3</sup>

<sup>1</sup> *Republic*, Bk. II, pp. 369 ff., Ed. Steph.; *Laws*, Bk. III, pp. 678 ff.

<sup>2</sup> *Politics*, Bk. I, Chap. ii (Welldon, p. 3).

<sup>3</sup> *Republic*, Bk. II, p. 370.

he does not have in mind the complex modern questions connected with division of labor. The Greek philosophers refer rather to a simple separation of employments, and their treatment lacks the significance that comes from the connection of the subject with a system of economics.

Their ideas concerning division of labor rested ultimately upon an analysis of human wants. The three primary wants of man, said they, are for food, clothing, and shelter. Therefore, there are at least husbandmen, weavers and shoemakers, and house builders; while smiths and carpenters come into existence to relieve the husbandmen. Exchange among these makes a merchant class necessary. Few places, moreover, are self-sufficient, hence foreign traders and sailors find employment. Meanwhile, another group, consisting of hirelings and slaves, arises. The function of the retail trades is validated on the ground that without them the seller might be compelled to wait or to depart with his goods undisposed of.

**A Social Point of View Taken.**—In emphasizing the advantage of division of labor, the state was thought of primarily rather than the individual, and the conclusion may be drawn that, in general, Athenian thinkers stressed the political solidarity of society. They by no means overlooked the interests of the individual, but always the individual was primarily the citizen, a citizen who, on the one hand, depended upon the state for his highest development, and who, on the other hand, by his development promoted the highest good of the whole. They exalted the state above the man; civilized man, they reasoned, is not to be thought of outside the state; without the state one is either more or less than a man. Aristotle's reasoning is in point: "Thus the state is by nature clearly prior to the family and to the individual, since the whole is of necessity prior to the part; for example, if the whole body be destroyed, there will be no foot or hand, except in an equivocal sense, as we might speak of a stone hand. . . . The proof that the state is a creation of nature and prior to the individual is that the

individual, when isolated, is not self-sufficing; and therefore he is like a part in relation to the whole."<sup>1</sup>

Plato, in accord with his highly idealistic and communistic beliefs, puts the case more forcefully: You are to regard yourself and possessions "not as belonging to yourselves, but as belonging to your whole family, both past and future, and yet more do I regard both family and possessions as belonging to the state; wherefore . . . I will legislate with a view to the whole, considering what is best both for the state and for the family, esteeming as I ought the feelings of an individual at a lower rate. . . ."<sup>2</sup>

Indeed, regulations similar to those found among more eastern peoples were not lacking in Athens. For example, there were inspectors of weights and measures, inspectors of goods placed on sale, harbor overseers, etc. The price of salt was regulated; the exportation of wheat was forbidden; and the slaughter of sheep and goats during lambing time was not allowed. The state also pensioned those crippled in war, and in some cases gave alms to the destitute.

After all has been said, however, it must be observed that little evidence of a concept of society as distinct from the state is to be found in Greek writings. The broad and deep biological and psychological bases of social life were not understood or emphasized, but rather the Greek state was a sort of mechanical combination of individuals or families.

**Inheritance.**—As further evidence of this conception of society, and as an indication of the static character of the ideal, Plato's plan for regulating inheritance<sup>3</sup> and population<sup>4</sup> is of interest. In his ideal state each was to have an inalienable allotment of land. Each was to choose a single heir, adopting a son if he had no children, or choosing a husband for his daughter, if male issue were lacking. Other property might be distributed among his remaining chil-

<sup>1</sup> *Politics*, Bk. I, Ch. ii.

<sup>2</sup> Jowett's *Plato*, Vol. V, p. 310.

<sup>3</sup> *Laws*, Bk. V, p. 740; Bk. XI, pp. 923, 924. (Ed. Steph.)

<sup>4</sup> *Republic*, Bk. V, pp. 460, 461. (Ed. Steph.)

dren.<sup>1</sup> Clearly one object was to keep the family intact and to preserve its property to it; and these measures remind one of those adopted by the Hebrew lawgivers.

Plato charges ancient legislators with being too good-natured in allowing a man to dispose of his property by will: ". . . they were afraid of the testator's reproaches, and so they passed a law to the effect that a man should be allowed to dispose of his property in all respects as he liked; but you and I, if I am not mistaken, will have something better to say to our departing citizens,"<sup>2</sup> and he goes on to express his belief that the interest of the state should predominate.

All this is surely suggestive as to present-day questions of regulating inheritances.

**Population.**— But the question arises, what was to become of children other than those who were heirs to the father's lot? In answer, Plato provided for a careful regulation of population. This was necessary to preserve the social equilibrium. His state was to consist of a limited number of citizens (5040). If the number began to decrease, prizes might be offered to encourage a growth of population; if there were an excess, colonies would be established. In this way that precise regulation of life contemplated by the philosopher might be rendered possible.

Thus the thought of the leading Athenian philosophers was hardly individualistic, though they went further than the Orientals in analyzing the state (society) into its component parts; for, like their government, the spirit of their philosophy was somewhat more democratic, and they saw that the welfare of the state depended upon that of the individual.

**Communism.**— Probably the most discussed phase of that part of Greek philosophy which has distinct economic bearing is communism. As this subject has a close relation-

<sup>1</sup> This was in Plato's second-best state, where communism of wives and children did not obtain.

<sup>2</sup> Jowett's *Plato*, Vol. V, pp. 310, 311.

ship to the question of social solidarity and individualism, it is naturally mentioned in this connection.

Plato and Aristotle differed greatly in their ideas as to the scope to be given communism. Plato desires a complete communism, embracing not only property, but also wives and children. He does not give the details of his scheme for communism in property. He makes it clear, however, that his object was to promote harmony by removing the ground for civil suits and uniting all citizens by common interests. His ideal state is characterized by a community of wives and children, partly with the aim of diminishing discord and jealousy, partly with the idea of eugenics and control of population. "The children of the inferior, or of the better when they chance to be deformed, will be put away in some mysterious, unknown place, as they should be. . . . This must be done if the breed of guardians is to be kept pure."

Aristotle was entirely opposed to Plato's communism of wives, and did not go any great way with him as to property. His arguments against communism are classics.

"Next let us consider what should be our arrangements about property: should the citizens of the perfect state have their possessions in common or not? This question may be discussed separately from the enactments about women and children. Even supposing that the women and children belong to individuals, according to the custom which is at present universal, may there not be an advantage in having and using possessions in common? Three cases are possible: (1) The soil may be appropriated, but the produce may be thrown for consumption into the common stock; and this is the practice of some nations. Or (2) the soil may be common, and may be cultivated in common, but the produce divided among individuals for their private use; this is a form of common property which is said to exist among certain barbarians. Or (3) the soil and the produce may be alike common.

"When the husbandmen are not the owners, the case will be different and easier to deal with; but when they till the ground themselves the question of ownership will give a world of trouble. If they do not share equally in enjoyments and toils, those who labour much and get little will necessarily complain of those who labour little and receive or consume much. There is always a difficulty in men living

together and having things in common, but especially in their having common property. The partnerships of fellow-travellers are an example to the point; for they generally fall out by the way and quarrel about any trifle which turns up. So with servants: we are most liable to take offence at those with whom we most frequently come into contact in daily life.

"These are only some of the disadvantages which attend the community of property; the present arrangement, if improved, as it might be by good customs and laws, would be far better, and would have the advantages of both systems. Property should be in a certain sense common, but, as a general rule, private; for, when every one has a distinct interest, men will not complain of one another, and they will make more progress, because every one will be attending to his own business; and yet among the good, and in respect of use, 'Friends,' as the proverb says, 'will have all things common.' Even now there are traces of such a principle, showing that it is not impracticable, but, in well-ordered states, exists already to a certain extent and may be carried further. For, although every man has his own property, some things he will place at the disposal of his friends, while of others he shares the use with them. The Lacedæmonians, for example, use one another's slaves, and horses, and dogs, as if they were their own; and when they happen to be in the country, they appropriate in the fields whatever provisions they want. It is clearly better that property should be private, but the use of it common; and the special business of the legislator is to create in men this benevolent disposition. Again, how immeasurably greater is the pleasure, when a man feels a thing to be his own; for the love of self is a feeling implanted by nature and not given in vain, although selfishness is rightly censured; this, however, is not the mere love of self, but the love of self in excess, like the miser's love of money; for all, or almost all, men love money, and other such objects in a measure. And further, there is the greatest pleasure in doing a kindness or service to friends or guests or companions, which can only be rendered when a man has private property. The advantage is lost by the excessive unification of the state. Two virtues are annihilated in such a state; first, temperance towards women (for it is an honourable action to abstain from another's wife for temperance's sake); secondly, liberality in the matter of property."<sup>1</sup>

Aristotle, it will be observed, although opposing Plato's ideas, did not rush to the opposite extremes. Some things should be private; some should be held in common. He desired that more things should be common than there then

<sup>1</sup> *Politics*, Bk. II, Chap. v.



were, and protested against the excessive individualism of the Greeks. He advocated common meals, and especially noteworthy is his wish for a certain community in the use of property along with its private ownership.

Aristotle did not confuse the end, happiness, with the means, as radical reformers are so apt to do. Thus he did not stand for an equality in goods, but for equality in want-satisfactions, a position which is in accord with idealism in that it recognizes the importance of differences in the wants of different individuals.

It must not for a moment be fancied that these ancient philosophers thought of communism as implying any general democracy. Quite the reverse. There were three classes of men fashioned in the bowels of the earth, one of gold, another of silver, the third of iron or copper. These were, respectively, the philosophers or guardians, the warriors or auxiliaries, and the artisans and tradesmen. Communism was to be applied to the first two alone. It was an aristocratic communism.

**Scope and Classification of Aristotle's Economic Thought.**

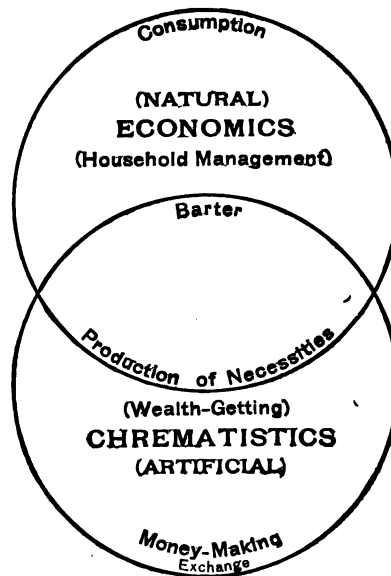
— The nearest approach made by Greek philosophy to developing a distinct theory of economics came in discussing the elements of household management. Here a distinction was drawn between economics (*oikonomik*) and chrematistics (*chrematistik*); the former embraces chiefly wealth consumption in the satisfaction of wants, and the provision of those necessary and useful commodities which can be stored to meet those wants; the latter deals with wealth-getting, including money-making and exchange. Concerning the latter, Aristotle says, "And there is another element of a household, the so-called art of money-making (or finance) which, according to some, is identical with household management, according to others, a principal part of it."<sup>1</sup>

There are two kinds of chrematistics: the natural and the unnatural. Thus the first simple barter by which things are given in exchange for what one wants "is not contrary

<sup>1</sup> Aristotle, *Politics*, Bk. I, Chap. iii.

to nature, but is needed for the satisfaction of men's natural wants";<sup>1</sup> but "retail trade is not a natural part of the art of money-making."<sup>2</sup> Or, again, husbandry and stock-raising make the "true or proper art of money-making," while the *other* consists in exchange.<sup>3</sup> It is the "natural" or "proper" branch of chrematistics alone which should be included in economics or household management (*Wirtschaft*).<sup>4</sup> Thus Aristotle's classification might be represented by the accompanying diagram.

Closely connected with the preceding analysis is the distinction between the natural or proper and the unnatural or improper uses of a thing. "Of everything which we possess there are two uses: both belong to the thing as such, but not in the same manner, for one is the proper, the other the improper or secondary use of it. For example, a shoe is used for wear, and is used for exchange; both are uses of the shoe."<sup>5</sup> This distinction rests upon Aris-



totle's notion of exchange, which, in its turn, is founded on the idea that there is a certain consumption which is sufficient for a proper life; for, when he says that retail trade is not a "natural" part of money-making, he adds that "had it been so, men would have ceased to exchange *when they had*

<sup>1</sup> Aristotle, *Politics*, Bk. I, Chap. ix.

<sup>2</sup> *Ibid.*, Bk. I, Chap. xi.

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*, Bk. I, Chap. viii.

<sup>5</sup> *Ibid.*, Bk. I, Chap. ix.

*enough.*" In other words, natural chrematistics concerns the satisfaction of natural or proper wants by "natural" or "proper" or "primary" uses. This idea clearly suggests later distinctions between value in use and value in exchange. Its consciously ethical content, however, is absent from much of the later usage. In the same idea, a trace of the notion held by some later economists (the Physiocrats) may be distinguished, namely, the notion that extractive industries are the only ones which are productive. One could easily get the idea from Aristotle that the growing, or digging up, or catching of things which satisfy the more elemental wants in the simplest way, is more productive than the elaboration of these things by artisans or their exchange by merchants, — that the latter occupations do not add to the real wealth of the state.

**Value.** — The idea of value received little attention, and that little was from the point of view of ethics or justice. Plato says that according to law a man "should not attempt to raise the price, but simply ask the value,"<sup>1</sup> implying that value is an absolute quality inherent in the thing. This, however, is but a rudimentary discussion of the subject. Aristotle goes further. His notion of value is clearly subjective, and is based upon the usefulness of the commodity concerned.<sup>2</sup> All things which are exchanged must be comparable through some standard of measure, and this standard he finds in man's wants: "In the truest and most real sense, this standard lies in wants, which is the basis of all association among men." An exchange is just, when each gets exactly as much as he gives the other; yet this equality does not mean equal costs, but equal wants. If men want the cobbler's product more than the husbandman's, more grain must be given for shoes. Money is the medium which makes wants commensurable.

**Money and Interest.** — As regards that particular form of wealth known as money, the teaching of the Greeks has been

<sup>1</sup> *Laws*, Bk. XI, p. 921 (Ed. Steph.).

<sup>2</sup> See *Politics*, Bk. I, Chap. ix; *Ethics*, V, 8.

of signal importance in the history of economic thought. In general, they saw and explained the necessity for money, and recognized a part of its economic function. Aristotle is especially explicit. He remarks that "as the benefits of commerce were more widely extended . . . , the use of a currency was an indispensable device. As the necessities of nature were not all easily portable, people agreed for purposes of barter mutually to give and receive some article, which, while it was itself a commodity, was practically easy to handle in the business of life, some such article as iron or silver, which was at first defined simply by size and weight; although finally they went further and set a stamp upon every coin to relieve them from the trouble of weighing it. . . ." <sup>1</sup> And he goes on to distinguish between money and wealth, referring to the fable of King Midas. Xenophon is equally clear in distinguishing between money and wealth. <sup>2</sup>

Plato would have had no gold nor silver for the private man, but only domestic coins to be used in payment of hirelings and the like; <sup>3</sup> but he thought that the state should have a common Hellenic currency for the use of embassies, expeditions, and journeys.

With all this, however, the thought of these men was tainted with error. They virtually regarded money as nothing but a medium of exchange, and, as such, they denied the productivity of loans of it. A piece of money cannot beget another piece, was the doctrine of Aristotle, and no economic idea of his had more lasting effects. The obvious conclusion was that interest is unjust. <sup>4</sup> Plato, too, seems to have thought that no interest should be given nor even the principal of a debt be repaid. <sup>5</sup>

It must not be supposed, however, that this view of inter-

<sup>1</sup> *Politics*, Bk. I, Chap. ix (Welldon).

<sup>2</sup> *Revenues of Athens*.

<sup>3</sup> *Laws*, Bk. V, p. 742 (Jowett, *The Dialogues of Plato*, Vol. V, p. 124).

<sup>4</sup> *Politics*, Bk. I, Chap. x.

<sup>5</sup> *Laws*, Bk. V, p. 742. This may be compared with the Hebrew idea of a loan — see above, pp. 36 f.

est which seems so strange to us owed its existence entirely to the inferior insight of the ancients. It is to be explained largely by economic conditions. In Athens the circulation of capital was inconsiderable, and money was not lent for productive purposes so often as for the purpose of relieving distress. If to-day loans were chiefly made to embarrassed friends or neighbors to be used in alleviating distress in matters of consumption, we too would undoubtedly regard interest in a different light. The modern theory of interest is based upon loans for productive investment.<sup>1</sup>

Another erroneous monetary idea, which was held by Xenophon at least, was that the value of silver is absolutely fixed regardless of supply. Aristotle, however, recognized that money is subject to the same law as other things and that its value is liable to change, although it tends to be more constant.<sup>2</sup>

**Industry and the Various Occupations.** — Like the Oriental lawgivers, Athenian philosophers favored some branches of industry and regarded others with disapprobation. Agriculture was considered most desirable. "But strictly speaking," writes Aristotle, ". . . the means of life must be provided beforehand by nature; for the business of nature is to furnish food to that which is born, and the food of the offspring always remains over in the parent. Wherefore, the art of making money out of fruits and animals is always natural." Husbandry and stock-raising were the natural or proper arts. Exchange, including commerce, usury, and services for hire, were not natural. Mining and lumbering lay midway between.<sup>3</sup>

Plato thought that the precious metals ought not to be allowed in his state, "nor much of the vulgar sort of trade which is carried on by lending money, or rearing the meaner kinds of livestock; but only the produce of agriculture, and only so much of this as will not compel us in pursuing it to

<sup>1</sup> Cf. Schönberg's *Handbuch der politischen Oekonomie* (Tübingen, 1882), Bd. I, S. 60.

<sup>2</sup> *Ethics*, Bk. V, Chap. 8.

<sup>3</sup> Aristotle, *Politics*, Bk. I, Chaps. x and xi.

neglect that for the sake of which riches exist, — I mean, soul and body.”<sup>1</sup>

**Riches.** — In their attitude toward riches these Greek thinkers are notable for their poise. Great stores of wealth were decried by them; as was also poverty. Clearly recognizing the usefulness of an abundance of material things as a *means*, they yet sought the happy medium. Riches in excess were disfavored on two grounds. As a matter of economy, it was argued that they decreased efficiency in production. In a celebrated bit of dialogue Plato develops the idea thus: —

“There seem to be two causes of the deterioration of the arts.

“What are they?

“Wealth, I said, and poverty.

“How do they act?

“The process is as follows: When a potter becomes rich, will he, think you, any longer take the same pains with his art?

“Certainly not.

“He will grow more and more indolent and careless?

“Very true.

“And the result will be that he becomes a worse potter?

“Yes; he greatly deteriorates.

“But, on the other hand, if he has no money, and cannot provide himself with tools or instruments, he will not work equally well himself, nor will he teach his sons or apprentices to work equally well.”<sup>2</sup>

A second reason for opposing extreme riches was ethical. Plato argues that great riches and happiness are incompatible; for a rich man cannot be a perfectly good man, as part of his wealth must necessarily be acquired and expended unjustly.<sup>3</sup> The reasoning is of much interest in connection with present-day ethics of wealth, and must be quoted to be appreciated.

<sup>1</sup> Plato, *Laws*, Bk. V, 743 (Jowett, *The Dialogues of Plato*, Vol. V, p. 126).

<sup>2</sup> *Republic*, Bk. IV, p. 421 (Jowett's *Plato*, Vol. III, pp. 109-110, 119-121).

<sup>3</sup> *Ibid.*, Bk. V, 742-744 (Jowett, Vol. V, pp. 125, 126).

"The citizen must indeed be happy and good, and the legislator will seek to make him so; but very rich and very good at the same time he cannot be, not, at least, in the sense in which the many speak of riches. For they mean by 'the rich' the few who have the most valuable possessions, although the owner of them may quite well be a rogue. And if this is true, I can never assent to the doctrine that the rich man will be happy—he must be good as well as rich. And good in a high degree, and rich in a high degree at the same time, he cannot be. Some one will ask, why not? And we shall answer—Because acquisitions which come from sources which are just and unjust indifferently are more than double those which come from just sources only; and the sums which are expended neither honourably nor disgracefully, are only half as great as those which are expended honourably and on honourable purposes. Thus, if the one acquires double and spends half, the other who is in the opposite case and is a good man cannot possibly be wealthier than he. The first—I am speaking of the saver and not of the spender—is not always bad; he may indeed in some cases be utterly bad, but, as I was saying, a good man he never is. For he who receives money unjustly as well as justly, and spends neither justly nor unjustly, will be a rich man if he be also thrifty. On the other hand, the utterly bad is in general profligate, and therefore, very poor; while he who spends on noble objects, and acquires wealth by just means only, can hardly be remarkable for riches, any more than he can be very poor. Our statement, then, is true, that the very rich are not good, and, if they are not good, they are not happy."

Aristotle also opposed extremes, though, quite consistently with his views as to communism, he was not opposed to reasonable inequalities. He dreaded more the encroachments of the rich than those of the people. "Many . . . make a mistake," he says, "not only in giving too much power to the rich, but in attempting to overreach the people. There comes a time when out of a false good there arises a true evil, since the encroachments of the rich are more destructive to the State than those of the people."<sup>1</sup> On the other hand he remarks, "Poverty is the parent of revolution and crime."<sup>2</sup>

**Ethics Dominant.**—It is to be emphasized that the ideal

<sup>1</sup> Jowett, *The Politics of Aristotle*, p. 131 (*Politics*, Bk. IV, 12, 6). See also *ibid.*, p. 45 (II, 7, 13).

<sup>2</sup> *Ibid.*, p. 40 (II, 6, 13).

of the Greek thinkers was highly ethical. To be happy one must be good, was a dominant note, and the interests of the soul were placed foremost. "For there are in all three things," Plato says,<sup>1</sup> "about which every man has an interest; and the interest about money, when rightly regarded, is the third and lowest of them: midway comes the interest of the body; and, first of all, that of the soul; and the state which we are describing will have been rightly constituted if it ordains honours according to this scale." And Aristotle's dictum is: "But a state exists for the sake of a good life and not for the sake of life only."<sup>2</sup>

If one could conceive of Plato making a definition of economics, one might imagine it would run somewhat as follows: "Economics is the science which deals with the satisfaction of human wants through exchange, seeking so to regulate the industries of the state as to make its citizens good and happy and so promote the highest well-being of the whole." That would make it an applied science, in which ethical aims would play a great part.

**Contrast with Hebrews and Hindus.** — As already observed, there are important differences between the economic ideas of the Hebrews, Hindus, and other Oriental peoples, and those of the Athenian philosophers. They were similar in emphasizing the state, and the ethical point of view. Neither differentiated economics from politics or morals. Both were conservative and undemocratic. Moreover, with both, agriculture was the only industry in very good repute. But the Greeks were more concerned with the individual, going further in the analysis of the state into its citizens. They, too, were possessed of some small degree of historical method, though it was quite abstract. They analyzed economic wants, and based the *oikonomik* and *chrematistik* of their philosophy upon this analysis. The Athenian philosophers were more appreciative of material wealth as an agency in furthering human happiness than were the sacred

<sup>1</sup> *Laws*, Bk. V, 743 (Jowett, *The Dialogues of Plato*, Vol. V, p. 126).

<sup>2</sup> *Politics*, Bk. III, Chap. ix.



writers of the Hindus, at least. The well-known care for the body by the Greeks had its economic significance.

Most important of all, the Greeks were more rational. Instead of forbidding interest in pursuance of some divine edict, they argued about it and reached the conclusion that it was unjust. Thus the writings of Plato and Aristotle mark a great step in advance in economic method, as well as in scope and depth of analysis.

## CHAPTER V

### THE ECONOMIC THOUGHT OF THE ROMANS<sup>1</sup>

FROM Greece the scepter passed to Italy, and the glory of Greek thought became merged in the grandeur that was Rome's. No pause need be made to retail the very scanty information we have about early Roman thought, before the stimulus of Greek ideas had been received. Suffice it to say that, aside from jurisprudence, the chief writings of the Romans were produced under the influence of Greek thought, and, as in the case of their art, a notable lack of freshness and originality is apparent.

The Athenians were thinkers, keen and analytic. The Romans were men of action, warriors and statesmen. The former left a philosophy which profoundly affected the ethics and economics of later thinkers; the latter built institutions which as profoundly affected law and politics. The heritage of the one has been a direct and subjective force; the other, chiefly indirect and objective, conditioning the thought of the individual. As will appear in a moment, however, Roman thought has had more direct influence than its intrinsic depth would account for.

Of especial interest is the fact that the decay of Rome was well under way when her chief writers were engaged on their works. This fact colored their writings and conditioned their economic ideas. The state of decay was at least half perceived by them, and remedies were pointed out for the evils discerned. The causes and remedies as they pre-

<sup>1</sup> Oertmann, *Die Volkswirtschaftslehre des Corpus Juris Civilis* (Berlin, 1891); Hoffmeister, *Die Wirtschaftliche Entwicklung Roms* (Vienna, 1899); Oncken, *Geschichte der Nationalökonomie* (Leipzig, 1902); Palgrave's *Dictionary of Political Economy*, article on "Civil Law"; footnote references in this chapter.

sented themselves — say in the time of Cæsar — were only in part economic; but the economic ideas of the Roman philosophers were largely palliatives for a declining state.

Roman economic ideas may be gathered from two main sources: (1) the jurists and writers on legal matters; (2) the philosophers.<sup>1</sup> Of less importance are (3) a few writers on agriculture (*de re rustica*); their ideas were purely technical or fall under the philosophical group.

**Economic Thought of the Jurists.** — Among the jurists are found the most original Roman thinkers, and the laws express the best Roman thought. No system of economics is expressed or implied, and ethical or political considerations outweigh those economic; but the following brief generalizations are of economic significance.

1. *Natural Law.* — The Roman jurists made a distinction between human law and natural law which had much influence upon medieval and later thought. Thus their *jus civile* was a national law applicable to Roman citizens. On the other hand, a body of law known as *jus gentium* was developed for foreigners of whatever nationality. The latter was broader and less guided by arbitrary local customs. It was more rational. Yet, at the same time, being so founded on general principles, it contained within itself the capacity for abstract absolutism in thought. Later it was united with the Greek concept of the natural, and as a *jus naturale* colored succeeding thought.<sup>2</sup>

2. *Private Property and Contract.* — In their ideas about two legal institutions, the jurists have had great effect in an objective way upon the development of economic thought; these are the institutions of property and of contract. There was a somewhat narrowly individualistic idea of property. Under the stimulus of Stoic philosophy and the ideal of a *jus naturale*, the jurists moved away from the clan or family as a social unit, and clearly-defined individual

<sup>1</sup> Others, as religious or theological writers, no doubt influenced economic thought and institutions indirectly.

<sup>2</sup> Cf. Maine, *Ancient Law*, pp. 56, 88; Carlyle (R. W., and A. J.), *A History of Medieval Political Theory*.

rights replaced whatever community of property there had been.<sup>1</sup> And a corollary of this movement was the development of freedom of contract, including the right of the individual to dispose of his property. The importance of these institutions as a basis for all economic processes, and their liability to abuse, are apparent. As a great English economist has said, "to Roman . . . influence we may trace indirectly much of the good and evil of our present economic system; on the one hand much of the untrammelled vigour of the individual in managing his own affairs, and on the other not a little harsh wrong done under the cover of rights, established by a system of law which has held its ground because its main principles are wise and just."<sup>2</sup>

An important characteristic of Roman economic thought is the separation of the non-personal elements in law from the personal, and the emphasis placed upon the former. In this it stands in contrast with the Stoic philosophy and with religious tendencies. In fact, one of the services of Roman thought was to divorce law from religion. This placing of the law upon a more impersonal basis doubtless facilitated the development of the Roman legal system in a scientific way. As a result, however, Roman juristic philosophy seems one-sided to us, in that it does not appear to attach sufficient importance to the human personality and to personal rights. This characteristic may be seen in the tendency to base right upon might, the law, in earlier stages of Rome's development, regarding conquest as giving the best title to property, and considering the enslavement of debtors as a just power of creditors. In private life the *pater familias* alone had full rights as a person; and the individualism of the Romans, like freedom of contract among them, applied only to certain favored classes of men.

It is evident that, in so far as it has affected economic

<sup>1</sup> The nature and scope of property rights changed at the same time, of course. At first property belonged to the family group and was alienated by the *pater familias* only with difficulty.

<sup>2</sup> Marshall, *Principles of Economics*, p. 23, 4th ed.

thought,—and with the development of commerce after the Crusades it came to have an increasing influence,—Roman law lent itself to the tendency to make economics a science of exchanges determined by the working of impersonal laws.

3. *Money and Interest.*—Worthy of mention is the fact that Roman jurists had a good appreciation of money.<sup>1</sup> Besides having a clear idea of its advantages for exchange purposes, they saw that it was, in a sense, merely a commodity of a more or less changeable value,—a value which is essential to its function and which cannot be established by law.

In the earlier periods of Roman history, the law appears on the whole to have opposed interest-taking. The Laws of the Twelve Tables fixed the interest rate, but condemned usury, thus recognizing a distinction between the two. In 357 B. C. the rate was changed to ten per cent; in 347 it was cut to five per cent; and five years later interest was forbidden entirely by the Genucian Laws. But with conquest and the growth of wealth things changed. Borrowing and lending were great in amount and widespread, large gains being made by borrowing at from four to eight per cent in Rome and lending in the provinces at such enormous rates as, for example, forty-eight per cent. Finally, the Institutes of Justinian fixed rates of from four to eight per cent,

<sup>1</sup> The following statement of the origin and use of money by the jurist Paulus has become famous: "Purchase and sale arose from exchanges; for formerly there was not money as now, nor was one thing called ware and another price, but each according to his necessities used to exchange things lacking utility for those which had it, since it often happens that what one has an abundance of another lacks. But because it does not always nor readily happen that when you have what I desire, I in turn have what you are willing to receive, a material is chosen whose valuation being permanent and fixed by the state (*publica ac perpetua aestimatio*) should remedy the difficulties of exchanges by equality of value in given quantities; and this material being struck with a public form (*i.e.* coined) represents usefulness and effectiveness not so much from intrinsic value as from (value in a given) quantity. Both being called wares no longer, but the one called price." Cf. Aristotle's words, above, p. 61.

*Dig. de contrah. empt.* xviii, 1; quoted by Kautz, *Geschich. Entwicklung d. Nat. Oek.*, p. 173. See Moyle, *Contract of Sale in Civil Law*, pp. 3, 221. Kautz's citation seems faulty in grammar and punctuation.

according to the character of the loan. Such legislation, however, seems to have been practically a dead letter, the actual rate varying with market conditions.

**Economic Thought of the Philosophers.**—While the jurist said, thou shalt, the philosopher was saying, thou shouldst. Though the genius of the Romans was certainly far less ethical than that of the more speculative Athenians, yet Roman philosophers generally let ethical notions take the place of scientific principles; as, for example, Cicero said that the universal opinion ought to be "brought over to the hope that men may learn to expect the attainment of what they desire by right purposes and honest deeds, not by fraud and roguery,"<sup>1</sup> and again, "Let it be settled then, that what is wrong is never expedient."<sup>2</sup>

The chief writers of this class were Cicero, Seneca, and Pliny the Elder; and the younger Pliny, Marcus Aurelius, and Epictetus may be mentioned. Of all, it can be said that they decried the luxury and vices of their time, condemning the thirst for riches—especially money—and preaching moderation. Looking back at the good old days, they praised a simpler agricultural economy. *O tempora! O mores!* Such was Rome's state that her philosophers dreamed of the simple life and called, "back to nature!"

While there is more insistence on a competency of worldly goods than among the idealistic Greeks and the religious Hebrews, there is not one of these philosophers but would have echoed the words, "The love of money is the root of evil." The Greek philosophers' view of interest also prevailed. Cicero tells us that Cato thought usury, *i.e.* interest, as bad as murder, saying, "Would you take interest? would you kill a man?" Seneca condemned interest-taking on the same ground as Aristotle.<sup>3</sup> Indeed it must be said of these writers, as of the Greeks, that they did not fully appreciate the nature and functions of money, not to mention capital as a whole.

<sup>1</sup> *De Officiis*, Bk. II, Chap. 3.

<sup>2</sup> *Ibid.*, Bk. III, Chap. 10.

<sup>3</sup> *De Beneficiis*, VII, 10 (Kautz, p. 156).

**Quietism and Nature Philosophy.** — It was the philosophy of the Stoics which not only influenced Roman legal conceptions but exerted an important direct influence upon later economic thought. This philosophy was tinged with a spirit of quietism which induced in many that economic fatalism so characteristic of Oriental thought.<sup>1</sup> For example, Marcus Aurelius meditated as follows: "Be satisfied with your business, and learn to love what you were bred to do; and as to the remainder of your life, be entirely resigned, and let the gods do their pleasure with your body and soul."<sup>2</sup> Happiness, the Stoics believed, lies not in outward things, but in conquest of desires and passions; hence their thought was naturally not directed toward increasing the production or improving the distribution of wealth. This belief would tend to prevent or remove a sense of individual responsibility for social ills, and to beget a sort of inertia in dealing with social problems.

The Stoics' nature philosophy had a similar tendency, in that, according to it, the part of the wise man is to "follow nature." Nature follows law, they reasoned,—the universe is systematic and rational,—therefore it is the part of wisdom to submit calmly to the all-pervading law of nature.

This concept of a law of nature held an important place in Roman thought.<sup>3</sup> Its connection with the *jus naturale* of the jurists is especially noteworthy: of both it may be said that the idea was one of a universal cosmopolitan and eternal law, which corresponds to man's innate convictions of right. Both as a part of Stoic philosophy and as a doctrine of Roman law, this concept, as will appear, played a considerable part at the birth of economic science in the eighteenth century.

At first glance, Stoicism would appear to be idealistic in tendency; but as a matter of fact its influence has generally

<sup>1</sup> Above, p. 48.

<sup>2</sup> *Meditations of Marcus Aurelius*, IV, 31.

<sup>3</sup> Even Cicero, though an adherent of the New Academy, with its Peripatetic tendencies, wrote his ethical works with a dominant Stoic strain.

worked with materialism in economic thought. The concept of a law of nature whose principles are innate in man, the ideas that a man is a law unto himself and that happiness does not lie in outward things, savor of the ideal. But, the Stoics regarded sensations as the source of knowledge and exalted reason. They held that a man must submit to the all-pervading, rational law of nature, which led to a species of fatalism. In short, while they believed that man may gain happiness, they also believed that he can only do so by conforming to natural law. The influence of such philosophy upon economics may be seen in the thought of the Physiocrats and Adam Smith.<sup>1</sup>

**Agriculture the Only Honorable Industry.** — A limitation upon Roman economic thought, one common to Romans and Greeks, was the prevailing idea that the only honorable industry was agriculture. Cicero may be regarded as typical in this respect, and he wrote: "Now as to the trades and modes of getting gain that are to be regarded as respectable, and those that are to be deemed mean and vulgar, the general opinion is as follows: In the first place, those callings are held in disesteem that come into collision with the ill will of men, as that of taxgatherers, as that of usurers. The callings of hired laborers, and of all who are paid for their mere work and not for skill, are ungentle and vulgar; for their wages are given for menial service. Those who buy to sell again as soon as they can are to be accounted as vulgar; for they can make no profit except by a certain amount of falsehood, and nothing is meaner than falsehood. All mechanics are engaged in vulgar business; for a workshop can have nothing respectable about it. Least of all can we speak well of the trades that minister to sensual pleasures, —

'Fishmongers, butchers, cooks, poulterers, and fishermen,'

as Terence says. Add, if you please, to this list perfumers, ballet-dancers, and the whole tribe of dice-players. The

<sup>1</sup> See below, pp. 164 ff., 219 f.



professions which require greater skill and are of no small benefit to the community, such as medicine, architecture, and the instruction of youth in liberal studies, are respectable for those whose rank they suit. Commerce, if on a small scale, is to be regarded as vulgar; but if large and rich, importing much from all quarters, and making extensive sales without fraud, it is not so very discreditable. . . . But of all means of acquiring gain, nothing is better than agriculture, nothing more productive, nothing more pleasant, nothing more worthy of a man of liberal mind."<sup>1</sup>

**Practical Tendencies.** — Though there was a feeling of disfavor among the upper classes, at least, toward the crafts and small-scale commerce, and the quietism in thought just noted, still the Romans were notably careful in business relations and matters of account. Many instances might be cited of their accurate and cautious manner of recording both public and private transactions.<sup>2</sup> Moreover, there is evidence that credit institutions similar to the check and promissory note were known and used, while Cicero requested Curius to honor Tiro's draft for any amount and asked Atticus to ascertain if he could get exchange in Athens.<sup>3</sup> While of little direct significance as to economic thought, these facts would indicate that, although lacking in theoretical analysis, the Romans must have had many concrete ideas about economic relationships.

**Writers on Agriculture.** — Chief among the *scriptores de re rustica*, or writers on agriculture, were Cato, Varro, and Columella. These writers produced semi-technical treatises on rural economy, dealing with the production of wine, oil, etc., the raising of different grain crops, and grazing. Then, in the introduction or some concluding book, general principles of private economy were added. They agree in decrying the *latifundia*, or large estates, absenteeism, and the spread of slavery, and in praising small-

<sup>1</sup> *De officiis*, Bk I.

<sup>2</sup> See, e.g., Oliver, *Roman Economic Conditions to the Close of the Republic* (University of Toronto, 1907), pp. 130-131.

<sup>3</sup> *Ep. ad Fam.*, XVI, iv, 2; XI, i, 2; XII, xxiv, 1.

scale farming. Their pretty general condemnation of slavery *on economic grounds* is especially noteworthy.

Varro's statement is typical: "To this whole class of free men [who till fields] the statement is applicable that it pays to use hired help rather than slave labor at all times in disease-laden districts, and even in the healthful regions as well for the more difficult tasks of husbandry like the harvesting of the vintage and the crops."<sup>1</sup>

Originally, the Romans were a stern and warlike folk, of simple tastes. As a people, they always dreaded the sea, and were slow to engage in foreign trade.<sup>2</sup> It was only after military conquest had enriched them with booty, therefore, that they acquired luxuries and luxurious tastes which necessitated commerce. At the same time the use of slaves increased to great proportions, while there was a concomitant destruction of the independent yeoman class. Land was cultivated in the form of great estates, *latifundia*, for absentee landlords, while an increasing mass of free but impoverished citizens was maintained in the cities at the public expense. This meant a growing separation of classes. It is little wonder then that the writers of the degenerate period turned longing eyes upon the simple rural life of bygone days.

The similarity between Rome's later days and the condition of France in the eighteenth century has been noticed by some historians,<sup>3</sup> and it is an interesting reflection that in both cases a declining state caused men to long for a simpler and more "natural" life.

**Roman Ideas on Value.** — In accord with the practical, non-speculative genius of the Romans was their thought concerning value. Passing from a régime of customary price, they had, as early as 450 B.C., when the laws of the Twelve Tables were formulated, left the determination of price to the fluctuations of the market. The buyer was

<sup>1</sup> *De Re Rustica*, I, xvii, 2; cited by Oliver, *Roman Economic Conditions*, p. 127.

<sup>2</sup> But see Oliver, *Roman Economic Conditions* (University of Toronto, 1907), pp. 21 ff.

<sup>3</sup> E.g. Kautz, above cited, p. 161.

given no recourse against the seller except in case of misrepresentation, and Paulus quotes Pedius to the effect that "the prices of things are to be determined neither with reference to affection nor to their utility to single individuals, but prices have a common validity."<sup>1</sup> It was the doctrine of the jurists that each might seek to overreach the other in the matter of price. But as for any analysis of the forces which determined what overreaching was, or any exact definition of it, there was none.

As time went on and exchange grew, the concept of a just or real price, *verum pretium*, arose. Thus one of the Emperor Diocletian's rescripts allowed the seller a right of recovery in case of a sale for under half the true price (*verum pretium*).<sup>2</sup> In an edict *De pretiis rerum venalium* (A.D. 301) the same emperor attempted to fix a just price on the basis of customary cost of production.<sup>3</sup> Though these rules could not be enforced, they certainly show some tendency toward introducing ethical considerations,<sup>4</sup> and toward a limitation of the freedom of contract during Rome's later years.

It is to be observed that the importance of wants and utility did not escape recognition, though not as a chief factor. Thus Cicero says, "The only limit to the valuation of such things (bronze statues) is the desire which any one has for them, for it is difficult to set bounds to the price unless you first set bounds to the wish";<sup>5</sup> and Seneca remarks that some things are of greater value than the price which we pay for them. Such a recognition could scarcely have failed to obtain where there was a knowledge of Greek philosophy. It seems too much, however, to say that, after the development of commerce and credit, utility became the

<sup>1</sup> *Ad legem aquillam*, Dig., Bk. IX, tit. ii, § 33; Sewall, *Theory of Value before Adam Smith*, p. 6.

<sup>2</sup> See Ashley, *English Economic History*, Vol. I, p. 208, note 19.

<sup>3</sup> Mommsen, *Der Maximaltarif des Diokletian* (Berlin, 1893).

<sup>4</sup> Cf. Endemann, W., *Studien in der Romanisch-Kanonistischen Wirtschafts- u. Rechtslehre*, II, 30.

<sup>5</sup> *De Beneficiis*, Book IV, Chap. XXV (Sewall, above cited).

basis for exchange value, the judgment of utility depending on the wants of the average normal man.<sup>1</sup>

**Industrial and Commercial Regulations.** — It is not to be inferred that, because the Roman law stood for private property and freedom of contract, the Roman state did not interfere in economic matters. In times of financial crisis the state established a public bank to supplement the activities of the professional bankers of the Forum,<sup>2</sup> and not a few measures for the protection of debtors were passed. Cicero induced certain Greeks and Romans, who had cornered the food supply in Cilicia, to promise stores to the people; and fines were levied on grain merchants who by hoarding had raised prices. An ædile inspected goods placed on sale in Roman markets, confiscating those in which fraud was found; and at various times the government took measures to prevent foreign competition with Italian producers, to regulate prices of oil, and to prevent the exportation of precious metals. An interesting case, too, is the regulation of traffic in Rome, loaded wagons being forbidden the use of the streets, except during the evening or night, and only those engaged in public building operations could be used between sunrise and the tenth hour.<sup>3</sup> All this was before the close of the Republic, and indicates the recognition in a practical way of the necessity for state participation in industrial matters.

**Influence of Roman Thought.** — While it must be admitted that, their legal contributions excepted, the Romans added little to the stream of economic thought, their importance as a medium for such thought is great. The mystery of antiquity, the sonorous tongue, the prestige of military and political preëminence all combined to spread the writings of Roman orators, essayists, and philosophers; and with them were disseminated the Stoic philosophy and the ideas of the Greeks. With them, too, went the practical

<sup>1</sup> Rost, *Die Wert- und Preistheorie* (Leipzig, 1908), takes this view, p. 26, note 1.

<sup>2</sup> Livy, VII, xxi, 8; XXII, lx, 4; XXIII, xxi, 6.

<sup>3</sup> "Lex Julia Municipalis," *Corpus Inscriptionum Latinarum*, Vol. I, 206; II, 56-61, 66-67; cited by Oliver, *Roman Economic Conditions*, p. 133.

maxims of the people, and incidentally the advice of the father or the meditation of the statesman conveyed ideas of economic significance.

These writings were read, nay, studied, by men of a later day, in Germany, France, and England, whose veneration for them gave them a weight which we can hardly realize. Moreover, the relative development in economic thought of the early moderns was not great, and their economics and ethics were not untangled. Thus it is that this seeming commonplace of Cicero's or that of Seneca's had much greater influence than was warranted by its intrinsic economic worth, and greater than it could have with ourselves. Though the Romans did not directly develop economic theory, a knowledge of their writings is essential to an understanding of the continuity of the history of economic thought.

**Division of Labor.** — To take but a single example, consider the subject of division of labor. Adam Smith first fully developed its economic aspect; but he rested upon Hume and Hutcheson. But Hume's footnotes are full of allusion to Roman writers, and Hutcheson expressly acknowledges his debt to Cicero on this very subject.<sup>1</sup> From

<sup>1</sup> *System of Moral Philosophy*, Vol. I, p. 290. Cicero's words are as follows: —

"Indeed, the very things that I have called inanimate are produced for the most part by the labor of men, nor could we have them unless handicraft and skill had given their aid, nor could we utilize them except under the management of men. Nor without the labor of man could there be any care of health, or cultivation of the soil, or harvesting and preservation of grain and other products of the ground. Nor could there be the exportation of our superfluous commodities, nor the importation of those in which we are lacking, unless men performed these offices . . . whence, indeed, could houses . . . have been furnished . . . unless society had learned to seek aid in these things from men? . . . Why should I enumerate the multitude of arts without which life could not have been at all? How could the sick be cured, what would be the enjoyment of the healthy, what would be our food or our mode of living, did not so many arts give us their ministries? It is by these things that the civilized life of men is so far removed from the subsistence and mode of living of the beasts. Cities, too, would not have been built. . . . These things have been followed by mildness of disposition and by modesty, and the consequence is that human life is better furnished with what it needs, and that by giving, receiving, and interchanging commodities and conveniences we may have all our wants supplied." (*De Officiis*, II, 3-5.)

this it is not to be inferred that but for Cicero and his Greek predecessors there would have been no division-of-labor doctrine, nor that Cicero understood the full significance of such a doctrine. When, however, an idea becomes part of a system of thought, it gains a significance and richness of content that makes a case like the preceding of some interest.

In brief summary, it may be remarked that the great service of the Romans to economic thought was the development of jurisprudence as a science, a jurisprudence whose practical spirit supported a great degree of individualism through its doctrines concerning property, contract, interest, and the like.

As Ingram says, "Their historic mission was military and political, and the national energies were mainly devoted to the public service at home and in the field. . . . As might be expected from the want of speculative originality among the Romans, there is little evidence of serious theoretic inquiry on economic subjects."<sup>1</sup>

It is essential to emphasize their influence in an objective way through institutions, juristic or political, and further to point out that their prestige as classics gives them an adventurous importance.

<sup>1</sup> *A History of Political Economy* (New York, 1907 ed.), p. 19.

## APPENDIX TO CHAPTER V

### QUOTATIONS FROM WRITERS ON AGRICULTURE

"After the paterfamilias has come to the villa and performed his devotions to his domestic deity, he ought that same day, if possible, to make a tour of his farm; if not that day, at least the next. When he has considered how his fields should be cultivated, what tasks should be completed, what not, then on the next day he ought to summon the *vilicus*, and inquire what work has been accomplished, what still remains; whether the work is far enough advanced for the season, whether what still remains can be completed, what has been done about the wine, corn, and other products. When he has ascertained this, he ought to inspect the account of the various workmen, and of the working days. . . . When there have been storms, consider the work that could have been performed while it rained; jars ought to have been washed and pitched, the villa cleaned, corn carried away, dung removed, dunghills made, seed cleaned, old ropes repaired, new ones made, and the slaves ought to have patched together their rag-garments and caps for themselves. On holy days old trenches could have been cleaned, the highways paved, the brambles cut, the garden dug, the meadow cleared, twigs bound, thorns rooted up, the spelt pounded, everything put in order. When the slaves have been sick, the ordinary supply of provisions ought not to have been given to them. When he is quite satisfied with his examination, he should give orders for the completion of the work that remains. He should then inspect the accounts of the *vilicus*, money-account and provision-account, the supply of food prepared, the wine-account, the oil-account, what has been sold, what used, what remains, what of this is for sale. Let there be good security for what is owing. As to what remains, he should see that it tallies. He should buy what is wanting for the year, have the surpluses sold, let out the necessary contracts. He should give orders concerning the works he would have completed, and the things he is inclined to let, and leave his order in writing. He should carefully inspect his flocks, make his sales, sell the superfluous oil, wine, and corn, if they are giving a good price, sell the old oxen, the refuse of the cattle and sheep, wool, hides, the old carts, old iron tools, and old and diseased slaves. Whatever is superfluous he ought to sell: 'A farmer should sell, not buy.'" (CATO, *De Re Rustica*, II.)

Of the *vilicus* Cato says: "He should maintain good discipline, attend to the observance of holy days, keep his hands off the property of others, faithfully protect his own, preside over disputes among the slaves, punish with discretion those guilty of a delinquency, provide against ill befalling the household, against sickness, against hunger. If he keeps the slaves busy with work it will be easier for him to keep them out of mischief and out of other people's affairs. . . . He must extend loans to none without his master's orders, and must exact payment from his master's debtors. He must lend no one seed for sowing or provisions or spelt or wine or oil. Let him have two or three households from which he may borrow, or to whom he may lend articles—let this be the limit. He must often reckon his accounts with his master. He must not use the same labourer, hired servant, or cultivator longer than a day. He must not desire to sell anything without his master's knowledge, or to conceal anything from his master." (CATO, *De Re Rustica*, V, 1-5.)

"As for those articles which can be raised on the farm or manufactured by the servants none of these should be bought. Of such a nature are nearly all those utensils in the manufacture of which you use osiers and other materials at hand in the country; for example, baskets, broom-baskets, threshing-sledges, winnowing-vanes, hoes; so too those in the making of which are employed hemp, linen, rushes, palms, bulrushes, as ropes, cords, coverings. But in the case of things which you cannot produce on the farm make your purchases with a view to their usefulness rather than ornament, and then their cost will not eat up their profit. This will be especially the case if you get them where they can be obtained good in quality, close at hand, and cheap in price." (VARRO, *De Re Rustica*, I, XXII, 1, 2.)





## II. MEDIEVAL ECONOMIC THOUGHT



## CHAPTER VI

### THE MIDDLE AGES

**The Period Defined.**—There is a certain rather ill-defined period in the world's history which is commonly known as the Middle Ages. Most writers agree in placing the beginning of this period at the fall of the Roman Empire in 476, but its ending is not so clear. Dr. Ingram<sup>1</sup> and others would bring it to a close with the year 1300, and it may be agreed that the Middle Ages reached a climax at about that time. But it by no means follows that the years of decline and break-up of medieval institutions which ensued, constituted the beginning of things modern. Ingram himself says that the movements of his first modern phase (1300–1500) “can scarcely be said to find an echo in any contemporary economic literature.” It seems more nearly true to regard the years about 1500 as marking the end of medieval times. By 1300 the transition was not complete. Not till toward the close of the fifteenth century did Humanism mark the rise of new tendencies in thought. At the same time the religious world was on the eve of its great Reformation; while in the mixed field of politics and economics the beginning of modern nation-building may be discerned. More objectively, there were such geographical discoveries as that of America and the water route to India (1498); and the extended use of such agents of civilization as the mariners' compass and gunpowder began during the same period. The significance of the influx of silver which followed the discovery of America has often been noted and its importance in bringing about the exchange economy of

<sup>1</sup> Following Comte.

modern times commented upon; but American mines were not opened until the sixteenth century.

In a word, the Middle-Age period does not close with Nicolas Oresme, but with Gabriel Biel, his disciple, who is sometimes called "the last of the schoolmen."

If further proof were needed, it might be observed that Feudalism, a preëminently medieval institution, did not generally begin to lose its power until after 1500, the period during which it really represented the political organization of French society, for example, being that lying between the years numbered 1300 and 1500.<sup>1</sup> It was in the early sixteenth century, too, that the English government gave the death blow to craft guilds, another medieval institution.

On large lines, and from the point of view of systems of thought rather than systems of industry, the Middle Ages may with profit be divided into two periods. From 400 down to 1200, or shortly thereafter, constitutes the first. During these years Christian theology opposed Roman institutions, and Germanic customs were superposed, until, through action and reaction, all were blended. This was the reconstruction; it was the "stormy struggle" to found a new ecclesiastical and civil system. From 1200 on to 1500 the world of thought settled to its level. Feudalism and scholasticism, the cornerstones of medievalism, emerged and were dominant. The latter, springing from the fusion of Aristotle's philosophy with Christian theology, was formulated by Thomas Aquinas, who may be said to mark the turning point between the sub-periods.<sup>2</sup>

**Early Germanic Contributions to Economic Thought.** — Relatively little is to be said about the economic ideas of the early Germanic tribes. Their contribution was rather a

<sup>1</sup> Esmein, *Cours Élémentaire d'histoire du droit français*.

<sup>2</sup> The periods suggested correspond rather closely to those in industrial history. Sometime during the twelfth or thirteenth centuries in England, and to a less extent in France and Germany, a town economy with division of occupations, inter-municipal trade, and money, largely replaced an independent domestic economy in which those characteristics were more or less lacking, and land was the chief basis of social and economic life.

new point of view, given expression in particular customs. This is not the place to discuss the mark, the three-field system, and all the interesting phenomena of their industrial life. It will suffice to recall the fact that originally the social and economic unit was the village community (*Genossenschaft*), a virtually self-sufficient group of households, democratic and similar in wealth. The community came before the individual, and within it the idea of brotherhood was strong. It followed that exchange for gain was hardly tolerated within the community, but a common value was placed upon such things as were exchanged, and even exchanges with other groups were regulated. There was no money economy.

The ideas and customs of the Germanic tribes sharply differentiate them from the Romans. The latter based their law upon individual rights; the former emphasized the community, — though a large degree of democracy gave room for a broad individualism. Accordingly, with the Romans there was a sharp distinction between private and public rights, whereas these rights were mutually determining and faded into one another in the case of the Teutons. More specifically, Roman law made property rights rather absolute and rigid, while by Germanic custom these rights were relative and changing. For example, the *Genossenschaften* had several different kinds of landed property, perhaps these four: dwelling places, gardens, arable lands, waste lands. In the first two, a large degree of private property was recognized; but the fields, with their changing strips, were subject to the plans of the community, and the waste land, or “commons,” as its name implies, was the property of no individual. Thus property rights had a different extent according to the nature of the object involved.

A noteworthy characteristic was the emphasis put by these peoples upon personal rights. Their laws seem to indicate that they were more concerned about such than about property rights. On the other hand, and almost paradoxically, personal rights depended largely upon landed property, land being the basis of things in their industrial stage.

**The Influence of Christianity and the Church.**—If the Roman factor be taken for granted, Christianity and the Church may be considered next as perhaps the chief factors in determining medieval thought. It is necessary to keep these two ideas separate, for few will deny that Christianity as a religion is quite distinct from the various institutions or churches which profess it. Those principles of Christian doctrine which have any direct economic significance follow.

1. The Church, in accordance with the spirit of Christianity, taught the natural equality of men. The ancients, as already seen, believed that men were different by nature: slavery, like castes, Levites, and "guardians," was natural, and corresponded to some inherent baseness. Christianity taught a brotherhood which extended beyond community or nation, embracing all classes and races.<sup>1</sup>

2. Accordingly, slavery was condemned, wholly or in part, the least radical teaching being that the slaves of the laity should be freed when Christianized.

3. And closely connected with the doctrine of equality was the idea of a natural community of property.<sup>2</sup> Originally, and according to the law of nature, men owned all goods in common.

4. One of Christianity's teachings, which was notably at odds with the ideas of antiquity, was that concerning the dignity of labor. This it upheld, though not without some ecclesiastical adulteration, and the ideal became a force working for a greater recognition of those who ate their bread in the sweat of their faces.<sup>3</sup> The various biblical maxims concerning the merit of industry were of no small weight to the men of this credulous time.

5. Charity and almsgiving, too, were among the cardinal virtues. Not only the writings of the Old Testament, but the words and spirit of Christianity, taught the duty of

<sup>1</sup> "And if a poor man have a quarrel with a rich man, sustain the poor rather than the rich, until the truth is made clear, and when you know the truth, do justice to them." (Advice of St. Louis to his son.)

<sup>2</sup> See article by H. H. Swain in *Bibliotheca Sacra*, October, 1897, on this point.

<sup>3</sup> Gen. iii, 19.

giving aid to the poor. St. Louis advises his son thus: "Dear son, have a tender and pitiful heart for the poor, and for all those whom you believe to be in misery of heart or body, and according to your ability comfort and aid them with some alms." This quotation, however, suggests two limitations upon the charity of medieval churchmen: their alms were in theory to be given only to those recognized as being in real need, and then were to be in proportion to the donor's means.

6. Finally, Christianity was a force for purifying and perpetuating the family and family life.

Thus the Christian religion tended to introduce elements which were deficient in the philosophy of Roman jurisprudence. The personality of man was emphasized. With the increased recognition of human worth came the introduction of moral and humanitarian ideas which added new limitations upon individualism while increasing the rights of many individuals. In fact, one cannot but be impressed with the idea that, on the whole, Christianity and Germanic customs worked hand in hand. Their fidelity, their relative freedom, their greater equality, their emphasis of the personal element, all made the Teutonic folks a ready medium for the leaven of the new religion.

As already suggested, the foregoing principles of Christianity were considerably modified or given a special meaning in their practical application by the Church. To mention but an instance or two: the "natural law" of equality was admitted to be modified on grounds of expediency so as to permit inequality both in property and in status. Again, charity was too commonly regarded as an end, as a pious thing, rather than as a means for benefiting society or the poor. So, too, with manual labor: it was regarded rather as a form of discipline for the attainment of salvation than as a means for producing wealth. Pride was not to be taken in the craft, and the main interest was not to be in the product. The general economic development was not favorable to the complete advancement from slavery,



and the Church made room for it on grounds of expediency. Serfdom can scarcely have disappeared in towns by the year 1000, while agricultural serfdom lingered on into the nineteenth century. Still there was the tendency toward freedom.

Prior to the thirteenth century the Church fathers concerned themselves but little about economic matters.<sup>1</sup> For one thing a very simple independent domestic economy prevailed; and, on the other hand, purely religious ideas were in control. Consequently, one finds little but moral dissertation concerning the evils of luxury, and the like. Among the most noteworthy economic ideas were those concerning the desirability of wealth, value, and the relative merits of different forms of industry. In these there is little new. Agriculture was praised; manufacture did not displease God; but trade could not be pleasing to the Deity. Material wealth was dangerous to spiritual welfare, though it was permissible to the laity if used for the good of their fellow men. As to value, the recognition of labor was preparing the way for a cost theory based on the labor element. The general notion appears to have been that value is absolute and objective and independent of price. Accordingly, exchanges were looked upon as just or unjust in proportion to the equality of the absolute values; and usury was forbidden to churchmen on the ground that in the taking of interest a greater value would be exacted than that given, which would result in injustice to the borrower.

But as early as the eleventh century progress began. With the growth of monasteries, towns, handicraft, and commerce, and the increasing use of money, new phenomena were presented; while in the twelfth century the first Latin translation of Aristotle's *Politics* found its way into western Europe. The latter fact marks an epoch in medieval thought.

**Scholasticism and Canon Law.** — Neither Christianity nor the Church, but part of each, with an admixture of the

<sup>1</sup> Cf. above, p. 30.

philosophy of Aristotle, was scholasticism. It was the system of thought which came to dominate ecclesiastics during medieval times; it was the scholarship of the Middle Ages. In it the theological element was dominant, and no advance in knowledge was considered established until the new idea was fitted into its niche in the structure whose foundation was religious. It cannot be called a science, for it did not seek to explain phenomena so much as to apply certain absolute rules of conduct to existing conditions. The last word was said after a citation from the Bible, one from the Church fathers, and now and then one from profane history.

It is not improbable that the progress made by medieval scholars in economic thought has often been underestimated, largely, no doubt, because their methods and conclusions were so different from those now dominant. It was Roscher's opinion that the scholastics, and above all Scotus, made more progress than is commonly believed, though only in certain special forms. Most valuable is that part of their work devoted to the sacrament, especially the sacrament of confession. Here were investigated the conditions which must precede the absolution of the penitent sinner and how far he must make good his wrong; and that led, in the case of sins which involved economy, to an inquiry into the nature of economic institutions. The conclusions reached will be discussed in a moment. The difficulty was that economics was not made a distinct line of thought. The monks knew little outside of Aristotle's writings, and Aristotle wrote no books on political economy.<sup>1</sup>

Thomas Aquinas has been called the prince of scholastics. He it was who with infinite pains and ingenuity strove to weld the teachings of the Bible and of Aristotle into a harmonious body of thought. And, in the uncritical judgment of his contemporaries, he succeeded. One

<sup>1</sup> This explanation is given by Gasser, *Introduction to the Economic, Political and Kameralistic Sciences* (Halle, 1729), as a reason why economic subjects had not been taught in the German universities. A work under that title is sometimes attributed to Aristotle, but even if he wrote it, it does not deal with economics proper in any distinct way.

result of his attempt was the celebrated classification of laws into eternal, natural, human, and divine. The first is the controlling plan of the universe as conceived by God; that part of it which can be grasped by man and which enables him to distinguish good and evil is natural law; while human or customary law consists of the enactments of earthly powers. Divine law is that part of the eternal law revealed in the holy writings. Human law should be based upon natural law. It fell into two parts: civil law (Roman) and canon law (Church). Canon law, or the *Corpus Juris Canonici*, was coördinated and given a systematic form about the middle of the twelfth century by the monk Gratian of Bologna. It was drawn from a mass of ecclesiastical legislation and decisions, thus containing elements of Christian doctrine, Aristotelian philosophy, and Roman law. It expressed the judgment of orthodox churchmen concerning human relations, and so contained economic ideas.

**Value and Just Price.** — Passing over ideas concerning wealth and industry, which were substantially those mentioned above, one reaches the heart of their economic thought in the doctrine of *justum pretium*. This doctrine rested upon their notion of value. Briefly stated, it was that every commodity had some one true value which was objective and absolute, and was to be determined in the last analysis by the common estimation of the cost of production. The words "was to be determined" are used deliberately, for the doctrines of the scholastics are only to be understood when considered as ethical, — as laying down what should be, rather than scientific conclusions as to what *is*.

As formulated by Albertus Magnus (1193–1280) and Thomas Aquinas (1227 or 1225–1274), the theory was that value should equal the expenditure of labor and other costs. Thus, according to Aquinas, a man might lawfully charge more than he had paid "either because he has improved the article in some respect, or because the price of the article

has been changed on account of difference of place or time, or on account of the danger to which he exposes himself in transferring the article from place to place, or in causing it to be transferred."<sup>1</sup> This generalization, however, was qualified to the extent that only those costs which were incurred in producing things which satisfied normal or natural wants were determining, and the labor element was weighted according to the social rank of the laborer.<sup>2</sup> This value was not necessarily expressed in price, and was independent of the estimate of buyer or seller. It was a question of justice,<sup>3</sup> and it was the duty of the law to step in and fix the price according to the above principles. It was quite in harmony with this conception that Charlemagne, at an earlier time, ordained "that no man, whether ecclesiastic or layman, shall, either in time of abundance, or in time of scarcity, sell provisions higher than the price recently fixed per bushel."<sup>4</sup>

With the rise of towns and money economy, this notion of value began to be modified, though it dominated the whole period and beyond. Aquinas gave some consideration to utility and to the amount offered for sale, or supply. Buridan (1300-1358) went farther and stated that the measure of value is to be found in the satisfaction of wants: the greater the need, the higher the value. And Biel (died 1495), while standing for a necessary equality in value of goods exchanged, bases it upon their utility for human ends.<sup>5</sup> But when all has been said, the conclusion is that it is broadly true that an objective cost conception of value prevailed during the Middle Ages.

**Value of Money; Usury.** — How did such an idea of value work when applied to money? The answer to this question

<sup>1</sup> Quaestio lxxvii, art. iv, *Opera*, XIX, p. 181. Quoted by Sewall, *Theory of Value before Adam Smith*, p. 18.

<sup>2</sup> Cf. Aristotle's teaching, above, p. 61.

<sup>3</sup> ". . . if either the price exceeds the value, or, conversely, the value exceeds the price of the thing, the balance of justice is destroyed," wrote Thomas Aquinas.

<sup>4</sup> Blanqui, *History of Political Economy*, p. 112.

<sup>5</sup> Contzen, *Geschichte der volkswirtschaftlichen Literatur im Mittelalter*.

brings up the well-known doctrine of usury. The term was used to cover what we designate as interest, and, in a broader sense, to include any price in excess of the *justum pretium*: *qui plus quam dederit accipit, usuras expetit*. (He who receives more than he gives demands usury.) At first (325 A.D.) usury was forbidden the clergy only, but before the close of the twelfth century the prohibition was extended to the laity. As late as 1311 it was declared absolutely illegal. The broad simple ground for this action was the belief that to take interest for a loan of money was, like charging more than the just price, unjust. A scholastic brief against usury might be drawn as follows:—

1. The holy writ forbids it: The Mosaic law prohibits usury-taking from a brother; Christ said, "Lend, hoping for nothing again." (Luke vi, 35.)

2. Aristotle says money is 'barren and cannot breed money, therefore, to demand usury for its use is unjust.

3. It follows from the above point that to pay for money is to pay for time; but time is common property and belongs to God.

4. Money is a *Res Fungibilis*, or "consumptible," according to the civil law. As such it has no use distinct from itself; its use cannot be separated from the ownership of it. Therefore, to lend money is to give up ownership of it, and to ask a payment for the use of that which is sold is unjust.<sup>1</sup>

<sup>1</sup> The reasoning of Aquinas on this point appears in the following quotation: "To take usury for a loan of money is in itself unjust; for it is to sell what does not exist, which is an inequality, and, therefore, an injustice. To understand this it must be known that there are some things whose use consists in the consuming of them, as when we consume wine. . . . In articles of this kind [consumptibles], therefore, the use of the thing must not be reckoned separately from the thing itself; he who is given the use is thereby given the thing. And accordingly in lending a thing of this kind, all the rights of ownership are handed over. If therefore a man wanted to sell wine and the use of the wine apart from one another, he would be either selling the same thing twice (meaning that the use *is* the wine), or would be selling what did not exist. Wherefore he would be manifestly committing injustice and sinning. For the same reason, he would commit injustice who lent wine or corn, seeking for himself *two* rewards, the restitution of an equal amount of the article and also a payment for its use, called usury."

"But money, as Aristotle says, . . . has been devised for the making of ex-

As in the case of the general concept of value, the development of industry and exchange wrought a gradual modification of the doctrine of usury or value of money. Aquinas and his brother scholastics recognized exceptions: for example, where a loss was incurred by a loan (*damnum emergens*) or a profit was missed (*lucrum cessans*) a corresponding sum might be demanded of the borrower. Then other openings were made. A buyer on credit was not prohibited from paying more than the cash price; discounts were allowed on bills of exchange; money combined with labor, as in partnerships, was called productive; Jews and Lombards, being damned anyhow, were permitted to take usury; and, in the fifteenth century, the *montes pietatis* were allowed to receive interest.<sup>1</sup>

The medieval idea of usury could not have long existed in a "money economy." The social organizations with which biblical writers, Aristotle, and the schoolmen alike were associated, were non-capitalistic, and largely self-sufficient. They were not exchange economies. The political counterpart of this industrial condition was a predominance of clan or family feeling, a feeling which appears in the gild, and even in the medieval municipality. This explains to a large extent the general condemnation of interest taking. Loans at interest generally involve a rather abstract or impersonal relation between the parties, such as became common with the establishment of money economy. Even to-day the purely business relation is apt to become unsatisfactory when existing among relatives or persons belonging

changes. So the first and chief use of money is its consumption or spending. Wherefore it is in itself wrong to receive (besides the return of the money itself) a price for the use of the money." (Quoted by Ashley, *Introduction to English Economic History and Theory*, Vol. I, p. 153.)

<sup>1</sup> Gabriel Biel, Professor of Theology at Tübingen, 1485, held that in deeds of partnership any rate of interest was allowable according to the gains of the capital as invested by the debtor, only the creditor must share any loss. Also, if one partner put in money and another contributed labor, the labor might be evaluated in terms of money, and the profits of the business be shared *pro rata*. See Contzen, *Geschich. d. volkswirts. Lit. im Mittelalter*, index under Gabriel Biel; and Roscher, *Geschichte der Nat. Oek. in Deutschland*, pp. 22 ff.

to the same social organization, and the condemnation of usury was natural when most of a man's dealings were with such persons.

**Economic Functions of the State.**—Another group of ideas held by the scholastics concerned the economic functions of the state. In general the independent domestic economy idea was applied to a large group, or, in other words, the state was regarded as a sort of great private or domanial economy. The position of taxation illustrates the situation. In the twelfth and thirteenth centuries, at least, the office of the ruler seems to have been regarded as private property. His revenues came from his estates and certain prerogatives,<sup>1</sup> and there was no system of taxation in the modern sense, for that represents more modern economic thought.

The particular functions proper to government were the maintenance of population and provision for the poor, the establishment of safe and free roads—a Roman conception backed by citations from the Bible, a system of weights and measures, and a special coinage. The argument for the maintenance of weights and measures was that it would decrease quarrels and litigation, and that the Bible says, "God has ordered all things by number, weight and measure."<sup>2</sup>

The duty of the medieval ruler to provide an exact and unchanging coinage was constantly emphasized. Virtually without exception this right was possessed by him, and laws were passed to prevent counterfeiting and clipping. The exportation of coin, as also the circulation of foreign coins, was frequently forbidden. This regulation of money was a logical concomitant of the doctrine of just price: the supply of money being small, relatively slight changes in its quantity would affect prices, and the difficulties of transportation made readjustments slow.<sup>3</sup> One reason advanced by Aqu-

<sup>1</sup> See below, p. 149.

<sup>2</sup> Book of Wisdom, ix.

<sup>3</sup> See Ashley, *Eng. Econ. Hist.*, Vol. I, p. 173.

nas why a prince should provide money was that he could thus get food for his subjects in time of war.

**Monasteries.** — Monasteries might be treated as a distinct factor in the life and thought of the medieval period. They were Christian industrial colonies influencing men in many ways, both by precept and example.<sup>1</sup> Objectively, the manual activities of the monks improved agriculture, disseminated industrial arts, and stimulated commerce. When a surplus was produced or a new supply of raw material was needed, exchange arose, and the principles which should govern the "*negociator ecclesiæ*" in economic relations with the outside world were carefully formulated. Their chief service was to "diffuse a better appreciation of the duty and dignity of labor," though after the tenth century this service waned.

**The Economic Thought of Medieval Townsmen.**<sup>2</sup> — Taking it for granted that the reader is familiar with the picturesque phenomena of medieval towns, with their guilds and market places, it remains to point out the bearing of various town and gild regulations upon economic thought. There was always a large element of monopoly present and competition as we know it was unthought of. Foreigners were admitted to the trade of the town, but only under controlling restrictions. Thus they were subjected to tolls, were under surveillance, could not sell at retail save under great restriction, and could not deal with other foreigners unless at fairs or on certain days. In these regulations, also, appears the common hostility to strangers.

But this monopoly was a public one and designed to be in the interest of the community; trade was regarded as a public opportunity. The idea of equality and of public benefit appears in such common regulations as that sales were not to begin before a certain hour, that unsold goods could not be withdrawn until a certain time, and that raw materials — as tallow, for example — must not be sold to outsiders.

<sup>1</sup> See Cunningham, *Western Civilization in its Economic Aspects*, pp. 35-40.

<sup>2</sup> Especially in England.



The universal prohibition of forestalling, regrating, and engrossing illustrate the above point, and are also connected with the idea of a just price. Indeed, the price of the town's manufactures was regulated; and that of the trader's merchandise was fixed within certain limits, though it came to be allowed a maximum and minimum within which it might play.

And this suggests the minute regulation of trade and industry, largely through the agency of guilds, a regulation which characterized the whole economy, and which, again, was commonly in the interest of the consumer, being notably so in the case of foodstuffs.

An interesting feature of town economy was its communal property and undertakings. Thus a common town pasture was frequent; many towns got control of the seigniorial mill (and the burghers were required to patronize such mills, the proceeds often going to decrease taxes). Bakeries, ovens, market places, and stalls might be added to the list. Then, too, in times of scarcity it was considered the duty of the town government to furnish grain. It sometimes made common bargains with foreign merchants for the materials needed by its artisans. Public works were carried on by the compulsory labor of the community.

The guilds, which were more or less closely associated with town government, serve to emphasize much the same line of thought. They were associations of merchants or craftsmen for the mutual benefit of their members, having as their ends protection, monopoly of the trade or craft, good workmanship, and fraternal and religious benefits. These associations served to train men in business ethics, to develop personal relationships, and to harmonize the interests of producer and consumer. And the craft guilds developed skill, protected the artisan, and increased the dignity and worth of labor. The ideas of just price, of regulation of quality and quantity of output, and of wages and conditions of employment characterize their dealings.

In view of the exaggeration in the old idea concerning the

freedom and equality in towns, it remains to be said that this idea is only relatively true. Depending upon the origin of the town,<sup>1</sup> almost from the beginning there were three or four distinct classes which successively dominated. A considerable number of inhabitants did not have the franchise, and the craft guilds, even, were in part monopolies of the masters (aldermen, wardens, commonalty) against the serving men.

As compared with rural life, however, there was a nearer approach to freedom which was quite marked in the earlier times in England.

**General Significance of the Period.** — The general significance of the Middle Ages as a period in the evolution of economic thought is rather difficult to state by reason of its complexity. In a sense, its negative aspect is large. While the chasm left by the downfall of Rome may have been exaggerated, yet civilization, as it had been, was in ruins. As to its positive characteristics, the Middle Ages constitute, first, a period of adjustment and fusing; secondly, one of transitions. During its centuries, Roman institutions, standing for a narrow individualism and, on the whole, for a materialistic philosophy; Christian religion, teaching the brotherhood of man and idealism; early Germanic customs, showing a broad and democratic individualism and leaning toward idealism; Aristotle's philosophy, emphasizing the common good and arguing for some degree of common use of property, with a correspondingly limited individualism,<sup>2</sup> — all these were to be combined and fused. This was more or less consciously the work of the scholastics. Thus Thomas Aquinas labored to adapt Aristotle while he assailed Rome; and one Nicholas von Cusa, while deeply versed in the contemporary learning of the Occident, turned his attention to the East; he sought to reunite the Greek and Latin churches, and studied the holy book of the Mohammedans.<sup>3</sup>

<sup>1</sup> In towns which grew up under the protection of some clerical noble, for example, all the aids, etc., exacted on a manor might be rendered by the townsmen.

<sup>2</sup> See above, pp. 55 f. Aristotle's argument against communism in the ownership of property is deservedly a classic, as has already been stated.

<sup>3</sup> Stumpf, *The Political Ideas of N. v. Cusa* (1865), quoted by Contzen, *Geschich. d. volkswirtsch. Lit. im Mittelalter*, p. 65.

As a transitional period it was during the Middle Ages that, objectively, national economy replaced independent domestic economy; that commerce and manufactures encroached upon the sole rule of agriculture; and that slavery was gradually abandoned for serfdom and free labor. But it is the world of thought which is of interest here. In it one finds a transition from the materialism of later paganism to the modified idealism of Christianity. At the same time the individualism of the Romans was succeeded by the idea of a society broader even than the city state of the Greeks, though not so broad as the dream world-empire of the Church. We pass from systems of thought which postulate a natural inequality among men, and slavery, to ideals of brotherhood and freedom. The Church, too, became more dissociated, formally at least, first from politics, then from industry, thus making for that separation of morals from economics which has been achieved in modern times. An economy in which land was regarded as the basis began the great transition to one in which personal relations dominated. In one, industry in manufactures and trading was despised; in the other, it was fostered; in the one, money was imperfectly understood and men generally condemned its accumulation; in the other, it was better understood, and probably came to be over-appreciated. Between these rather opposite views lay the Middle Ages.

During this great transition it was well that the idea of protection was strong. It appears in the Church and Christianity, in the towns and guilds; custom, regulation, monopoly, are met everywhere. The whole economic philosophy of the Middle Ages might be summed up in the doctrine of just price. In a period of turmoil among such great opposing systems of thought, and classes and races of men, before the rise of nations, it was well that the idea of protection was strong.

But for further ideas let the reader, if interested, compare the chapter which precedes this with the two which follow.

III. THE DAWN OF MODERN ECONOMIC  
THOUGHT: MERCANTILISM AND  
KAMERALISM



## CHAPTER VII

### MERCANTILISM

THAT period which may be called the Middle Ages was succeeded by two or three centuries which looked toward modern systems of industry and thought. The old garments of "natural" economy, feudalism, and scholasticism were not entirely cast off; but great changes were being worked out. The thought of the period now to be considered stands in a relation to us different from that of the theories of the ancient world and of the Middle Ages, inasmuch as it was the immediate predecessor of a real school of political economy, the Physiocratic system. Through Adam Smith and his immediate predecessors, for example, it has exercised an appreciable influence upon the economic speculation and policy of English-speaking peoples down to the present day.

**Preliminary Definitions of Period and Doctrines.** — The economic ideas, and the corresponding policies, characteristic of men of this first post-medieval period, have been variously styled Mercantile System, Colbertism, Restrictive System, Commercial System, and Mercantilism. As they do not properly form a system and do not belong to any one man or fall under one central economic idea, Mercantilism is preferable. Perhaps the nearest approach to a definition which might be safely attempted here, would be to say that Mercantilism comprises the economic views which prevailed among European statesmen from the sixteenth to the latter part of the eighteenth century. As will appear, such views largely concerned commerce and involved much restriction; but these aspects tell only part of the story.

"Political Arithmetic" was a phrase much used by the

Mercantilists with reference to their attempts at the more exact solution of the economic problems with which they dealt. This kind of arithmetic they defined as "the art of reasoning by figures, upon things relating to the government."<sup>1</sup> Thus the political aspect is to be given great weight. And, on the other hand, the work of these men as statisticians is to be remembered.

It is difficult to tell just when Mercantilism came to be the guiding principle of state policy, or when its sway ended. The truth is that the ideas which are most characteristic of the Mercantilists have always existed to a greater or less extent. Travers Twiss, however, dates the practice of Mercantilism from the accession of Charles V to the throne of Spain in 1516; for that monarch at once initiated retaliatory measures against the commercial monopoly of Venice. Be that as it may, the date corresponds well enough with the growth of money economy and the rise of nations,—the two phenomena which formed the basis of Mercantilism.

Mercantilism, as a doctrine, was first systematically developed in 1613 by an Italian writer, Serra. In that year his book, *A Brief Treatise on the Causes which make Gold and Silver abound in Kingdoms where there are no Mines*, was published. It may be said truly that the seventeenth century is the one in which the most numerous and characteristic Mercantilist writings are found.

Then, with the Industrial Revolution and the growth of political freedom, governments began to abandon Mercantilist principles in the second half of the eighteenth century.

So much for a preliminary definition of Mercantilism and the Mercantilist period. What, then, were the phenomena and the problems that gave rise to them? What ends did the Mercantilists have in view?

**Factors Causing and Shaping Mercantilism.**—There were several more or less remote causes leading to developments in the field of political economy about the beginning of the sixteenth century, such as the religious and intellectual

<sup>1</sup> Davenant, *Use of Political Arithmetic*.

awakening of the time. The most immediate and important factors, however, were the political and economic developments which began toward the close of the fifteenth century. All of these found expression in the rise of nations.

The central fact concerning the economic factors was the transition to an exchange economy. A characteristic feature of ancient and medieval times was the prevalence of "independent domestic economy" with ideals of local self-sufficiency and little exchange. Naturally, too, manufactures were limited and agriculture had a greater relative importance than is now the case. Without attempting a complete statement, it will be remembered that all this was changing at about the time under consideration. Developing *pari passu*, there came the beginning of a manufacturing economy known as the "domestic system," a great growth of commerce, both internal—among cities of the same country—and foreign, and the extended use of money. By Queen Elizabeth's time England was exporting woolens instead of wool. The old manorial system of agriculture was rapidly vanishing and at the same time the artificers' guilds were declining in power. The accompanying conditions were profoundly significant: "enclosures," the rise of a "free" labor class and the labor problem, competition. The seed of the problem of distribution was planted; and the force upon the working of which the young science of economics was to be based, was brought into play. Custom and status had ruled the Middle Ages. In the Mercantile period we find statutes being enacted in the vain attempt to preserve the customary limitation of certain industries to certain towns, and widespread objection began to appear to the existence of many monopolies. For good or ill, competition began to take its place as a factor in controlling industry.

Extensive exchange and foreign commerce would hardly have been possible without money, and this the new silver mines in America made available in abundance (1540–1600). Toward the end of the period, banking reached such a stage



of development in England that the Bank of England could be established. The influx of precious metals, together with debasement of coinage, caused a great rise in prices, and provoked much economic speculation. In the discussion introductory to this book, the financial difficulties of governments and the dissatisfaction of laboring classes with their condition appeared as two of the most fruitful causes of economic speculation. It is the first of these factors that chiefly stimulated Mercantilistic thought. Enormous extravagance often existed at court, but, aside from waste, the increased needs of government made the revenue to be obtained from royal estates and prerogatives less adequate. The result was a greatly increased use of taxation. The basis for taxation was, of course, being laid in the development of industry and commerce, which made available large sums of the increasingly necessary money. Greater security stimulated saving and banking.

Taxation being ostensibly for the maintenance of government, the political aspect of Mercantilism is suggested. It will become apparent that the object of Mercantilism was not so much to increase the wealth of the nation as to add to its power. In so far as wealth and power go together, the distinction has little significance; but the two are not always identical, and power was uppermost in the thought of the typical Mercantilist — the power of his nation. Thus the fishing industry was to be protected and high shipping rates borne, on the chief ground that shipping is that "in which consists the greatest honour and safety of the kingdom."

In the formation of nations and states two great relationships and two sets of problems arose, one external and one internal. Without, there was the struggle with other growing states; a struggle with the economies of the local units and the central government was taking place within. In government, typical Mercantilists stood for absolutism, for absolutism was an aid to that political unity which was in process of achievement. A degree of economic

unity had to be achieved at the same time, as the existence of towns or provinces with monopolies and protected interests made political unity impossible. Despotism (a strong king) was the remedy at that time for confusion and conflict (nobles, towns, and gilds). The celebrated "Wars of the Roses" (1455-1486) helped to lay the nobles low, and natural industrial evolution was a powerful ally in dealing with gilds and municipalities. In Hobbes' *Leviathan* (1651) one gets a good idea of the prevalent conception of the state: it was above the individual will; its right was to regulate the disposal of property; its duty was to encourage industry.

It is not to be overlooked that with the beginning of a free labor class and the downfall of Feudalism a step was taken which facilitated if it did not lead to democracy. Industrial democracy, however, was far from existing. The most significant immediate result, from the standpoint of a history of economic thought, is, perhaps, the voice that was given to the merchant—the representative of "big business" in those days. Harrison in his *Description of England* (Ed. 1577) wrote that "They often change estate with gentlemen, as gentlemen do with them, by a mutual conversion of one into the other." It is notable that instead of priests, philosophers and jurists, with a few noble proprietors of large agricultural estates, it was the merchant prince who did a large part of the economic writing of the Mercantilist period.

Though no inconsiderable misunderstanding of Mercantilism has resulted from overlooking its domestic significance, still it is true that foreign relations furnished the immediate topic for the most typical Mercantilist doctrines. While it must not be forgotten that the interests of the nation and state constituted the ultimate end, it was in international relations that "those governments which understood how to put the might of their fleets and admiralties, the apparatus of customs laws and navigation laws, with rapidity, boldness, and clear purpose, at the service of the

economic interests of the nation and state,"<sup>1</sup> gained their supremacy. From the economic point of view, the essence of Mercantilism, which is state-making, can be appreciated best through the chief theories and policies which sprang from it and which make up Mercantilism proper.

The increased wants of the new states were occasioned chiefly by the growth of standing armies, coupled with rising prices. By the seventeenth century, warfare was vastly changed. Formerly there had been an hasty expedition, a pitched battle, and the issue was settled by courage; but at the time of which we write, as an eminent Mercantilist states, the whole art of war seemed, in a manner, reduced to money, and that prince who could best find money to feed, clothe, and pay his army, not he who had the most valiant troops, was surest of success and conquest.<sup>2</sup>

Thus, "since war is grown so expensive, and trade is become so extended; and since luxury has so much obtained in the world, no nation can subsist of itself without helps and aid from other places; so that the wealth of a country now is the balance, which arises from the exchange with other places, of its natural or artificial product."<sup>3</sup>

To Sir Josiah Child, the most useful and necessary inquiry was, What is to be done to improve the nation's trade "to such a degree as to equalize or overbalance our neighbors in our national profit by our foreign trade?"<sup>4</sup>

These things are mentioned, not for the sake of bringing out the balance of trade idea, as such, but to show the importance attached to international relations. The hostility of the English toward the Dutch between 1660 and 1675 might also have been mentioned. Robert Clavell published a pamphlet (1665) which was one of several attacking the Hollanders and claiming England's ownership of adjacent seas. After the Dutch were crushed, hostile activity was centered on the French, imports being restricted in 1678,

<sup>1</sup> Schmoller, *The Mercantile System* (Ashley's Economic Classics series), p. 72.

<sup>2</sup> Davenant, *An Essay upon Ways and Means* (1695), p. 16.

<sup>3</sup> *Ibid.*, p. 13.

<sup>4</sup> *Discourse of Trade*, p. 156.

and a contemporary pamphlet proclaimed that "The French grow too fatt."<sup>1</sup>

**The Policies and Theories of the Mercantilists.** — Though it is rather difficult to generalize concerning the theories and policies of Mercantilism, this much may safely be said: one great purpose dominated it, namely, the desire to make the state strong; the economic basis for strength, wealth, was given great weight; the most important form of wealth was considered to be the precious metals or "treasure"; foreign trade was generally preferred above other forms of industry, as best furnishing a supply of the desired kind of wealth; and, in measuring the success of this policy and of foreign trade, great importance was attached to the so-called "balance of trade." The dominance of a political teleology has been made sufficiently plain in what has gone before, and the emphasis of wealth will need no special comment. It remains, then, to discuss the last three generalizations.

1. *The Importance of "Treasure."* — It is no longer held that the Mercantilists believed the precious metals and wealth to be identical, or that they thought money the only form of wealth. There can be no doubt, however, that the typical Mercantilist sometimes confused the two things; and certainly he considered money the most desirable form of wealth,<sup>2</sup> drawing a distinction that we do not make between treasure and other forms of wealth. One or two utterances from Mercantilist writers may serve to let the reader form his own opinion on this point. In his *Essays in Political Arithmetick* (1655) Sir William Petty makes the following statement: "The great and ultimate effect of trade is not wealth at large, but particularly abundance of silver, gold, and jewels, which are not perishable, nor so mutable as other commodities, but are wealth at all times,

<sup>1</sup> See Hertz, *English Public Opinion after the Reformation*, pp. 89, 97.

<sup>2</sup> E.g. "The general measures of the trade of Europe, at present are gold and silver, which, though they are sometimes commodities, yet are the ultimate objects of trade; and the more or less of those metals a nation retains it is denominated rich or poor." William Richardson, *Essay on the Causes of the Decline of the Foreign Trade*, 1744.

and all places; . . . so as the raising of such, and the following of such trade, which does store the country with gold, silver, jewels, etc., is profitable before others.”<sup>1</sup> With a similar idea Mun wrote: “All nations who have no mines of their own, are enriched with gold and silver by one and the same means”: by exporting goods to the value of twenty-two thousand pounds and importing twenty thousand pounds’ worth, “we may rest assured that the kingdom shall be enriched yearly two hundred thousand pounds, which must be brought to us in so much treasure.”<sup>2</sup> Child thought it a general and well-grounded opinion that gold and silver were to be taken “for the measure and standard of riches,” and urged that by trade England was able to export goods which brought back “six times the treasure in specie.”

This emphasis of money as the most desirable form of wealth was a natural and not unreasonable result of conditions. Though Mercantilism is not to be attributed directly to the rise of a money economy, still, the growth of commerce, the changes in methods of warfare, and the introduction of the wages system gave money a new importance. The reader must remember, too, that it may be that some modern economists have tended to overlook the unique characteristics of money as a form of wealth, its relatively stable value and ready exchangeability differentiating it to some extent from other valuable goods.

Again, there was not the opportunity for investment open to men that exists to-day. Industrial stocks and bonds were virtually unknown, and money took their place. So, too, with various credit agencies. To-day they abound and make an important part of our medium for exchanges as well as form a means of investment. In a word, the relative importance of the precious metals was normally greater then than now.

It has been suggested that the character of the foreign

<sup>1</sup> P. 113.

<sup>2</sup> *England's Treasure by Foreign Trade* (London), 1669, p. 11. But it would be easy to misunderstand Mun by making “treasure” equivalent to our idea of the word “wealth.”

trade of those days tended to increase the Mercantilists' emphasis of bullion. When spices, silks, wines, and the like played so important a part in exchanges, it was not so strange that writers "imagined that the chief use of foreign trade to England was to introduce gold and silver rather than nutmeg."<sup>1</sup>

2. *Foreign Trade*. — As to the means to be adopted for securing the desired treasure, that prince of Mercantilists, Thomas Mun, wrote: —

"The ordinary means . . . to encrease our wealth and treasure is by Forraign Trade. . . . This ought to be encouraged, for upon it hangs the great revenue of the king, the honor of the kingdom, the noble profession of the merchant, the school of our arts, the supply of our poor, the improvement of our lands, the nursery of our mariners, the walls of the kingdom, the means of our treasure, the sinews of our wars, the terror of our enemies."

And Mun believed that only the treasure so gained — "by the ballance of our forraign Trade" — remained in the kingdom.<sup>2</sup>

William Petty in a similar strain gave it as his opinion that, "There is much more to be gained by Manufactures, than Husbandry, and by Merchandise than Manufactures."<sup>3</sup> And Sir Josiah Child held that those trades deserve most encouragement which employ most shipping; "for besides the gain accruing by the goods, the freight, which is in such trades often more than the value of the goods, is all profit to the nation."<sup>4</sup>

In a similar vein it was argued that the sailor was at once an artisan, a soldier, and a potential merchant; that fleets were valuable for defense; and that only through foreign commerce could countries having no mines obtain the coveted treasure in gold and silver.

<sup>1</sup> Cannan, *Production and Distribution*, p. 3. The force of this observation, however, is weakened by the fact that foreign trade was praised and urged as a means for obtaining these things.

<sup>2</sup> *England's Treasure by Forraign Trade* (published 1669), p. 49; Economic Classics Series, pp. 28-29. First edition 1664.

<sup>3</sup> *Essays in Political Arithmetick* (1691), p. 100.

<sup>4</sup> *Discourse of Trade*, Preface (1690).

Of course, since a nation could not export without producing, commerce necessitated manufactures. Articles of high specific value alone could bear the expense of transportation, therefore manufactures were favored next to trade and above agriculture.

That even this cardinal Mercantilist idea did not pass unchallenged, however, appears from the fact that in his *Discourses upon Trade*, Sir Dudley North argued that foreign trade could not subsist without home trade.<sup>1</sup>

3. *The Balance of Trade Idea.* — But howsoever great a nation's foreign trade might be, it was not sufficient unless there was a proportionate excess in value of exports over imports. This was the balance of trade notion.

Cossa says that we must distinguish three phases of Mercantilism: (1) Prohibition of the export of specie, including debasement of coinage and regulation of exchange; (2) "Balance of bargains," indicated by laws regulating contracts made by individual trades such as the "regulated companies"; (3) Balance of trade, involving the total trade of the nation. These distinctions, however, seem rather superficial, for the phases all center in the balance of trade idea, and prohibition of specie and regulation of contract were but means of gaining the great end, — favorable balance of trade. Moreover, these "phases" do not correspond to any clearly defined historical periods, either in industry or in thought about industry.

Child states the balance of trade doctrine as follows: —

"It is the most general received opinion, and that not ill grounded, that this *balance* is to be taken by a strict scrutiny of what proportion the value of the commodities exported out of this kingdom bear to those imported; and if the exports exceed the imports, it is concluded the *nation* gets by the general course of its trade, it being supposed that the overplus is imported in *bullion*, and so adds to the treasure of the kingdom; *gold and silver being taken for the measure and standard of riches.*"<sup>2</sup>

<sup>1</sup> North, *Discourses upon Trade* (1691), p. 16.

<sup>2</sup> *Discourse of Trade*, p. 153.

Child himself considers the balance of trade to be simply the national gain or loss by foreign commerce, and thinks the best way of ascertaining it to be by observing the general state of trade and shipping. He also mentions the rate of exchange. Like Mun and Davenant, he enlarges on the difficulties of ascertaining the balance with any degree of accuracy.

But without further illustration it may be observed that at least four somewhat different attitudes toward the balance of trade may be found among Mercantilist writers. (1) It was the original or vulgar idea that a favorable balance was a means or instrument by which the stock of precious metals in a given nation might be increased. This notion was apt to be associated with an over-emphasis of treasure. Furthermore, it tended to confuse the means with the end: the balance of trade must ultimately depend upon industrial efficiency, and is thus the result rather than the means of securing treasure. (2) Or, a relative conception being added, it might be regarded as an agency for outstripping other nations, thus involving the fallacious notion that what one nation gained another lost. (3) Some looked upon the balance as being the general "net profit" of the nation on its annual trading, embracing specie, credit, and commodities.<sup>1</sup> (4) While still others saw in it simply an index to the state of the nation's trade, to be used like the rate of exchange, the amount of shipping, etc.<sup>2</sup> Of these views the third, with its specie or treasure element made by far the most prominent, was the most widely prevalent.

Such writers as Barbon (*Discourse of Trade*, 1690), who attacked the balance of trade idea, can hardly be classed as Mercantilists.

<sup>1</sup> Davenant, who took this view, uses the phrase, "quick stock" (of the people of a nation), as equivalent to the balance of trade. *Essay on Ways and Means*, p. 13.

<sup>2</sup> These different uses of the phrase, "balance of trade," are not coördinate except in the broad way of having a bearing directly or indirectly upon the gain of the state by foreign trade. The fourth use of the phrase might be subdivided, it being regarded (a) as an index to trade in general, (b) as an index to trade with some particular nation.



4. *Industrial and Commercial Regulations.* — To put into execution the foregoing theories and policies involved many contributory or supporting policies, and brought about a host of government regulations, duties, and bounties. An interesting attempt at classifying the various measures calculated to enable a nation to overbalance its neighbors in profits by foreign trade, was presented by one of the writers already mentioned. The classification embraces four general heads:<sup>1</sup> —

I. *Increase the number of hands.* This might be accomplished through naturalization laws, religious toleration, freedom to hire as many servants, looms, etc., as desired, poor relief, and education.

II. *Increase the amount of stock.* In addition to some of the above measures, laws for the transference of bills of debt, the enforcement of the navigation acts, various protective measures, and fewer holidays were advocated.

III. *Make trade easy and necessary.* This desirable consummation was to be attained by the preceding agencies and by the establishment of a court merchant, abatement of interest, adequate convoys at sea, etc.

IV. *Make it the interest of other nations to trade with us.* By gaining their respect through a strong navy and army; by underselling, honest dealing, wise treaties, and restricting imports of manufactures, this end might be attained.

A scrutiny of the writings of the chief English Mercantilists shows that the government policies advocated, — and these make the chief feature of Mercantilism, — may all be summed up as concerning population, its size and character; the development of natural resources; and various commercial devices.<sup>2</sup> Under the first group of policies would come the advocacy of toleration and freedom of conscience, largely to attract industrious foreigners; careful provision for the

<sup>1</sup> Compare Mun, *England's Treasure*, Chap. III; and Child, *Discourse*, Chap. I.

<sup>2</sup> These policies were largely drawn from Holland, for whose commercial methods and institutions the seventeenth century Englishman had great respect. For Holland's thought see Laspeyres, *Geschichte der volkswirtschaft. Anschauungen der Niederländer*.

poor and remedies for unemployment made a prominent point in various programs. Others stressed education, especially in arithmetic and accounts; while all agreed that "parsimonious" and thrifty living was imperative, as this would reduce the importation of foreign wares and, as in the case of clothes, leave a larger surplus for export. Mercantilists were all convinced that every man oweth to work, to use the language of an old statute, and compellable industry was a common idea.

As to natural resources, it was pointed out that by a better utilization of waste lands things then imported might be produced at home; and the development of the fisheries was an important policy. By "corn laws," which prohibited the importation of grain when the domestic price fell below a certain level, Mercantilists strove to stimulate and protect agriculture to the end that the nation might be self-sufficient and support an abundant population.

There is space to mention but a few of the many plans for facilitating and increasing commerce. For example, there was the public registry of mortgages and sales, the establishment of banks, the greater use of bills of exchange to allow more rapid settlements and turnovers, free importation of raw materials, exportation in British vessels, etc. Opinion was divided as to the efficacy of lowering the interest rate by law; but not a few deemed such a measure of the utmost importance.

Perhaps this is the place to refer to the colonial policy common to Mercantilists. Recent discovery and conquest had made colonies of great moment; and, in accordance with the foregoing ideas, the accepted treatment of them was to confine their industry as largely as possible to the production of raw materials, with the idea that the mother country should work these up and sell the finished product to the colonists. The net profit of the nation would thus be increased.

The Mercantilist ideas concerning money easily led up to the various land-bank schemes which marked the close of the

seventeenth century. Men who believed that an increase in the quantity of the circulating medium would correspondingly increase manufactures and trade, especially if, as was often the case, they also believed that "mony is a value made by a law," readily fell in with propositions to swell the monetary supply. Such men appear to have been Chamberlen, Briscoe, Barbon, and Asgill, in England, and Law, in France. John Law (1671-1729), a Scotchman by birth, about 1716 succeeded in establishing a great land bank in France, but after a pyrotechnical career was financially ruined in 1720. His pamphlet, *Money and Trade considered, with a proposal for supplying the nation with money* (1705), had a considerable influence. In it, he argued that "wealth depends upon commerce, and commerce depends upon circulation;" and he advocated a paper currency based upon land. This whole movement, however, is best considered as a by-product or side-issue of Mercantilism: it is not characteristic of the more typical period or representatives of Mercantilism. It will also be observed that its emphasis upon land is not so easily explainable in terms of Mercantilism as are its purely monetary aspects.

**The Practical Application of Mercantilist Policies.**—In accordance with such ideas, we find many acts for the encouragement of tillage, corn laws, navigation laws, and laws creating and regulating the staple, sumptuary laws, assizes of bread and ale. Probably it was in France under Colbert that the restrictive policy was carried farthest. We are told that "the state exercised over manufacturing industry the most unlimited and arbitrary jurisdiction. It disposed without scruple of the resources of manufacturers; it decided who should be allowed to work, what things they should be permitted to make, what materials should be employed, what processes followed. . . . Not the taste of the consumers, but the commands of the law must be attended to. . . . Machines were broken, products were burned, when not conformable to the rules. . . . An artisan could neither choose the place in which to establish

himself nor work at all seasons, nor work for all customers. There exists a decree of March 30, 1700, which limits to eighteen towns the number of places where stockings might be woven. A decree of June 18, 1723, enjoins the manufacturers at Rouen to suspend their works from the 1st of July to the 15th of September, in order to facilitate the harvest. Louis XIV, when he intended to construct the colonnade of the Louvre, forbade all private persons to employ workmen without his permission, under penalty of 10,000 livres, and forbade workmen to work for private persons, on pain for the first offense of imprisonment and for the second of the galleys."<sup>1</sup>

In Prussia many measures were adopted to foster industry. These were partly negative, as the abolition of certain gild restrictions; and partly positive, as encouragements to immigrate and to marry, the establishment of mills and manufactories, the maintenance of lists of business opportunities, etc. There were also the usual limitations on exportation and importation. The policies seem to have been very wisely applied.<sup>2</sup>

**Particular Economic Theories.** — 1. *Value.* — Clear evidence of the development which was going on during the sixteenth and seventeenth centuries in industry and philosophy appears in that part of economic thought which was devoted to value. Prior to this time, such thinkers as wrote on value generally conceived of it as inherent in things — as an intrinsic quality. Some saw more or less clearly its dependence upon human needs, but even these thought of it as belonging to the thing. Thus Aristotle had spoken of two uses of shoes, one to wear and the other to exchange. The medieval "just-price" was an ethico-religious conception of a given value inhering in a thing and quite different from its price. This conception of value is really more nearly akin to that of "utility" as now held. It was dimly perceived that the power of a thing to gratify wants — aside

<sup>1</sup> Dunoyer, *De la Liberté du Travail*, quoted by Mill, *Political Economy*, V, xi, 7.

<sup>2</sup> See appendix to this chapter.

from exchange considerations, and assuming the want — depended upon the quality of the thing.

The rise of exchange and money economy necessarily changed all this. It became impossible to consider value as an intrinsic quality of goods when value came to be predominantly the changing prices of the market. The problem of the value of money came to be seen in a truer light, also, and money is not generally wanted for itself. More and more clearly the just-price concept became severed from actual market value and more recognition and validity were given to the latter. The result was that by the end of the Mercantilist period value had come to mean generally an extrinsic market phenomenon dependent upon exchange.

Along with the industrial changes there came a development in religious and intellectual thought which tended to make the older idea of value unsatisfactory. Thus abstract moral and juristic dogmas lost influence and a long step was taken toward the development of economic science by the growing separation between ethical and economic considerations. Economic writing ceased to be confined to philosophers, priests, and jurists. A greater regard was shown for material things; for to an increasing extent men gave their minds to a concrete study of political or economic evils and the remedies for them. Significant of the time was the rise of a group of traders and statesmen whose empirical writings show this tendency.

The fruits of a better appreciation of human personality and its worth appear in the works of a group of publicists and juristic philosophers who emphasized human reason, faculties, and desires, giving due weight in their "law of nature" to the nature of man. Accordingly, subjective factors gained in importance, and the conclusion came to be drawn that when the buyer and the seller were satisfied, the price was just.

Some of the foregoing developments were not completely carried out, and naturally did not affect all writers to an equal degree. The juristic philosophers showed more of

the ethical motive in their thought; and the traders and statesmen generally were not concerned with the subjective aspects of value. It should be noted, too, that much of their writing was that of the pamphleteer and lacked the balance and breadth of the scientific treatise, just as the fugitive pamphlets of to-day are apt to do.

In the writings of the Mercantilists the transition noted in the preceding paragraphs can be pretty clearly traced. Passing over a group of Italian writers who sapped the medieval idea of just price,<sup>1</sup> the historian must mention the two juristic writers, Grotius<sup>2</sup> and Pufendorf.<sup>3</sup> The Dutch scholar, Hugo Grotius (1583-1645), drew upon Aristotle, Christian theology, and Roman law, but in his theory of value—which he discussed in connection with contract—he appears to have been chiefly influenced by the Greek philosopher. The German jurist and historian, Samuel Pufendorf (1632-1694), was largely indebted to Grotius and to the English philosopher, Hobbes. Both made needs and desires—in the inclusion of the latter going beyond Aristotle—an important element in value; and they implied a distinction between value in exchange and utility. Hobbes, in his *Leviathan* (1651), emphasized individual estimation in discussing value. He referred to the “value or worth” of a man as being his “price”—that is, what would be given for his services—and as being dependent upon the “need and judgment” of others. The buyer, he argued, rather than the seller determines prices: “The value of all things contracted for is measurable by the appetite of the contractors, and therefore the just value is that which they be contented to give.”<sup>4</sup> Following Hobbes, Pufendorf stressed “moral estimation,” and said “The foundation of the price or value of any action or thing is, fitness to procure, either mediately or immediately, the necessities or con-

<sup>1</sup> E.g. Buoninsegni (1591); Scaccia (1618).

<sup>2</sup> *De jure belli et pacis* (1623), Bk. II, Chap. XII. See Laspeyres, E., *Gesh. d. volksw. Anschauungen der Niederländer*, p. 3.

<sup>3</sup> *De jure naturae et gentium* (1672), Bk. V, Chap. I.

<sup>4</sup> Hobbes' *English Works*, Vol. III, Chaps. X and XV.

veniences, or pleasures of human life." The degree of scarcity, however, was allowed some weight.

Both the continental writers attached a considerable degree of validity to the prices determined by competition, and Hobbes' statement concerning "just value," quoted in the preceding paragraph, is notable.

In the thought of at least two of these men, however, appears the notion of a sort of basal value, akin to the "normal value" of present-day economists, resting on cost of production. For illustration, Grotius said that "account is commonly taken of the labor and expense of the sellers"; and Pufendorf held that in regulating "natural price," regard is to be had to the "labor and expense of the merchant" and his risk.

Within the group of traders and statesmen, less attention was paid to subjective ideas of value, and value was thought of as determined by objective forces outside of the individual estimation. Two representatives of this group will suffice, namely, Petty and Locke. Sir William Petty makes value rest on expenses of production, reducing them to labor and land. "Labour is the father and active principle of Wealth, as Lands are the mother." But he seeks to reduce these two expenses to a single unit, "so as to express the value of anything by either alone."<sup>1</sup> Market or "extrinsic" values rise or fall according to supply and demand. According to Locke, labor is the almost exclusive source of value, for he says, "it is labour indeed that puts the difference of value on everything."<sup>2</sup> "Nay, if we will rightly estimate things as they come to our use, and cast up the several expenses about them, what in them is purely owing to nature, and what to labour, we shall find, that in most of them ninety-nine parts out of a hundred are wholly to be put on the account of labor."

These two writers, then, are to be taken as forerunners

<sup>1</sup> Petty's *Economic Writings* (Cambridge, 1899), Vol. I, p. 181. See Rost, *Wert- u. Preis-Theorie*, pp. 29 ff.; Sewall, *Theory of Value before A. Smith*, pp. 70 ff.

<sup>2</sup> *Essay on Civil Government* (1690), London, 1772, p. 210.

of the later labor theories of value. They represent the majority of English Mercantilists proper.

To sum up, it may be said that in the writings of the Mercantilists can be found suggestions of most value theories since developed, and the ideas of Adam Smith and the English Classical school may be traced directly to them. (Hutcheson used Pufendorf as a text, and Smith was a student of Hutcheson's.) These suggestions were not fully worked out, however, and it is difficult to classify them clearly. The distinction was drawn between "intrinsic" and "extrinsic" values; the former depending on needs and desires and the inherent fitness of things to gratify them, the latter upon supply and demand or cost. The earlier writers appear to have given most attention to intrinsic value, meaning what is now generally called utility. This was sometimes called "natural value," and by Pufendorf "*pretium vulgare*" (value in use). As exchange and money became more important, extrinsic value came in for more attention. It was called artificial or accidental or market value. Pufendorf contrasted "*pretium eminens*" (purchasing-power value) with value in use, and it is significant that he seems to have thought of it in connection with money only. This was exchange value. Cutting across the extrinsic or exchange value class, was the distinction found in a few cases (*e. g.*, Locke, Fortrey) between natural (normal) value based on cost, and market value determined by "vent" (demand) and scarcity (supply). The idea of "natural" value, in which the play of competitive forces was recognized, was substituted for just price, — an important step in the development of the science.

It remains to touch upon a few notable exceptions. The Italians, Davanzati<sup>1</sup> and Montanari,<sup>2</sup> and the Englishman, Nicholas Barbon,<sup>3</sup> will suffice. These men laid the greater emphasis upon utility and held subjective theories of value.

<sup>1</sup> *Lesione della Moneta*, 1588.

<sup>2</sup> *Della Moneta*, 1680 circa.

<sup>3</sup> *A Discourse of Trade*, 1690, Chap. III.



Thus Barbon wrote: "The value of all wares arises from their use; things of no use, have no value, as the *English* phrase is, *they are good for nothing*." And again, "for the value of things depending on the use of them, the *over-pluss* . . . become worth nothing; so that plenty, in respect of the occasion, makes things cheap; and scarcity, dear." These men, together with some of the others already mentioned, helped to keep alive a recognition of the subjective element in value.

2. *Interest*. — No unanimity exists among Mercantilist writers on the subject of usury or interest. Thomas Mun, about the middle of the seventeenth century, argued in favor of interest-taking on the ground that money-lending enabled poor young merchants to rise and make possible the advantageous employment in trade of the funds of widows, orphans, and gentlemen. As to the nature of interest, his conclusion was "contrary to those who affirm that trade decreaseth as money increaseth, for they rise and fall together,"<sup>1</sup> — that is, he considered the interest rate as a result rather than a cause of industrial conditions.

About 1668, a controversy over usury laws sprang up. In conflict with Mun's views, Sir Thomas Culpeper had written two tracts in favor of establishing lower interest rates;<sup>2</sup> and his son published a "Discourse" attacking usury. But perhaps the most eminent sponsor for this notion was Sir Josiah Child. He maintained that a low interest rate was the natural mother of frugality and industry, that it would attract traders by making capital cheap, and compel frugality by making smaller "profits" necessary! A high rate of interest made money scarce because every man as soon as he had saved a little, sent it to the goldsmith. The whole burden of such arguments was, "We shall never

<sup>1</sup> *England's Treasure by Forraign Trade*, p. 127; Economic Classics Series, pp. 77-81.

<sup>2</sup> *A Tract against the high rate of Usurie*, 1621; *ibid.*, 1640. In the first he favored reduction from 10 to 8 per cent; in the latter — this reduction having been made — he desired a 6 per cent legal rate.

stand on even ground with the Dutch in trade till interest be the same with us as with them."<sup>1</sup> Likewise, Davenant took a fling at those who received interest: "The usurers, who are the true drones of a commonwealth, living upon the honey without the labor," should be taxed.<sup>2</sup>

Most of these men thought that a law reducing the interest rate would be effective and make money cheap. Evidently they got the cart before the horse and made the effect the cause, all of which indicates a lack of understanding of the functions of capital and money.<sup>3</sup>

On the other hand, there were some who took Mun's side in the usury controversy. One, Thomas Manley, explained that "as it is the scarcity of money (and many borrowers) that maketh the high rates of interest, . . . so the plenty of money and few borrowers will make the rates low." John Locke, too, while not understanding the causes of the value of money, argued that low interest rates were the result of a plentiful supply of money. And Sir Dudley North upheld this end of the controversy, explaining that an abundant "stock" and security made rates low in Holland.

Of the preceding writers, excepting North, it may be said that if they had any conception of the relation between the productivity of capital and interest it was but a faint one. Their notion of "profits" was naïve and unanalyzed; "usury" was simple payment for the use of money.

Nicholas Barbon, however, while arguing for a decreased rate of interest, saw this relation; for he wrote: "Interest is commonly reckoned for money; . . . but this is a mistake; for the interest is paid for stock. . . . No man takes up money at interest, to lay it by him, and lose the

<sup>1</sup> *Discourse of Trade*, pp. 27, 29, 167, and Preface; for the situation in Holland see Laspeyres, *Anschaungen der Niederländer*, p. 256.

<sup>2</sup> *Essay on Ways and Means*.

<sup>3</sup> Cossa, in his *Introduction to the Study of Political Economy*, certainly speaks too strongly in calling Child remarkable for his sound understanding of money without noting this limitation. By Child's time money was largely invested in profitable ways.

interest of it."<sup>1</sup> And North in his *Discourses upon Trade* (1691) is perhaps another exception.<sup>2</sup>

3. *Population; Wages; Rent.*—It would be wrong to make the desire for a dense population, as such, one of the cardinal features of Mercantilism; but, partly for purpose of war and partly for increase in production, Mercantilists desired a numerous people. By employing many people the king's revenue would be increased. Cheap and abundant labor was necessary to enable home products to compete successfully with those of foreign countries; hence the laws and regulations encouraging matrimony and parenthood. Samuel Fortrey announces that "People and plenty are commonly the begetters the one of the other, if rightly ordered";<sup>3</sup> Davenant says, "People are the real strength of a country";<sup>4</sup> and Child, that "it is in multitudes of People, and good Laws, such as cause an Encrease of People, which principally Enrich any COUNTRY."<sup>5</sup> Fortrey was notably explicit in his writing on this subject. Two things, said he, make a nation great and powerful: riches and population. To increase the latter he favored freedom of immigration and the granting of equal rights to immigrants,—this on the ground that they would bring riches with them and improve trade and industry. In answering objections—for there were opponents—he maintained that improved industry would benefit all citizens, and he even went so far as to argue that it would be an advantage to make land dearer, asserting that "it might be wished, nothing were cheap among us but only money!"

<sup>1</sup> *Discourse of Trade*, pp. 31, 32.

<sup>2</sup> "But as the Landed Man lets his land, so these still lett their stock; this latter is call'd Interest, but is only Rent for Stock, as the other is for land." "... if there be more Lenders than Borrowers, Interest will also fall; wherefore it is not low Interest makes Trade, but Trade increasing, the Stock of the Nation makes Interest low." (p. 4.)

<sup>3</sup> *England's Interest and Improvement* (1663), p. 4.

<sup>4</sup> *Essay on Ways and Means*. A dense population makes invention, frugality and industry necessary, which bring a nation riches.

<sup>5</sup> *Discourse of Trade*, Preface. (See also Petty, *Political Arithmetick*, pp. 107, 123; Barbon, *Discourse of Trade*, p. 39.)

It was the idea of the philosopher, Hobbes, that when the multitude of poor, strong people increased, the overplus should go to the colonies; and he made this striking statement: "when all the world is overcharged with inhabitants, then the last remedy of all is war; which provideth for every man, by victory or death."

The Mercantilists appear to have had no theory of wages or rent. As already suggested, they were more or less unsystematic pamphleteers; and their ends concerned production rather than distribution. It is true that Petty saw that the value of labor is derived from its product, that Child stated that wage regulation is unwise, etc.; and the latter writer observed that rent had fallen in England as the result of improvement in Ireland and high land taxes.<sup>1</sup> But these ideas were not developed.

4. *Factors of Production*.—Of more significance are their utterances concerning the factors of production: these have interest in connection with their probable influence upon both the Physiocrats and Adam Smith. For example, Petty's famous dictum "Labour is the father and active principle of Wealth, as Lands are the mother," is most significant in both relations. Child refers to "the inseparable affinity that is in all nations and at all times between land and trade, which are twins, and ever will wax and wane together." Davenant keeps the foreign trade idea to the front, remarking that "the price of land, value of rents . . . rise and fall, as it goes well or ill with" commerce; but delivers himself of the following generalization: "The wealth of all nations arises from the labour and industry of the people,"<sup>2</sup> a statement which reminds one of Adam Smith.

Barbon, who was hardly a Mercantilist, said that "land is the fund that must support and preserve the government," and was himself interested in a land bank.

<sup>1</sup> *Discourse of Trade*, Preface. (See also Petty, *Political Arithmetick*, pp. 107, 123; Barbon, *Discourse of Trade*, p. 11.)

<sup>2</sup> "Of the Use of Political Arithmetic," *Works*, Vol. I, p. 139. (London, 1771.)

5: *Productivity of Different Occupations*.—In general, as already remarked, Mercantilists believed that the merchant was “the best and most profitable member of the commonwealth,” and that after him came the artisan. One of their number makes a summary statement which covers the whole matter of productive and unproductive labor. He writes: “It is (I think) agreed on by all that Merchants, Artificers, Farmers of Land<sup>1</sup> and such as depend on them . . . are the three sorts of people which by their study and labour do principally, if not only, bring in wealth to a nation from abroad; other kinds of people, viz. Nobility, Gentry, Lawyers, Physicians, scholars of all sorts, and shop-keepers, do only hand it from one to another at home.”<sup>2</sup>

/ These ideas are of significance in the history of economic thought in two ways: they indicate a great change from the times, medieval and ancient, in which agriculture was placed first; and they are to be associated with the notions of Adam Smith and the Physiocrats concerning the non-productivity of certain classes. It is of no little interest, and importance, too, to observe how economists have denied productivity now to this class, now to the other.

The belief that certain occupations are not so productive as others, all things considered, has been a long-continued one. The intermingling of ethical ideas makes it difficult to compare these beliefs; but it may be said that they are determined largely by the dominant class. Thus, in the Middle Ages, agricultural interests dominated; by the seventeenth century, commerce was in the ascendancy; in the middle of the eighteenth century, as will appear later, there was a renewal of interest in agriculture; while the Industrial Revolution put manufacturing interests to the front. Accordingly, the Mercantilists thought that as gentry, professional men, and retailers had little connection with bringing in treasure, they were in that sense non-productive; while in 1776 Adam Smith considered that similar classes were not

<sup>1</sup> Note the order.

<sup>2</sup> Child, *Discourse of Trade*, p. 25.

productive in the sense that they did not put vendible goods on the market.

6. *Taxation*. — Worthy of notice, also, is the thought of the Mercantilists on taxation. In general their idea was that men should be taxed according to the benefits received from the state.<sup>1</sup> This idea was in accord with the prevalent notion of a "social contract." According to Hobbes, the test for benefit should be expenditure. The man who saves should not be penalized; "when the impositions are laid upon those things which men consume, every man payeth equally for what he useth, nor is the commonwealth defrauded by the luxurious waste of private men."<sup>2</sup> Grotius and Pufendorf held that burdens must correspond to benefits received in the shape of protection.

Sir William Petty has been called the first English scientific writer on taxation. His words are: "It is generally allowed by all that men should contribute to the Publick charge, but according to the share and interest they have in the Public Place; that is according to their Estate and Riches."<sup>3</sup> He favored the expense index, that is, taxation in proportion to expenditure.

Other Mercantilist empiricists dealt with this important subject at some length, and formulated several practical doctrines. In general, low customs and an increased use of excise taxes were favored. Equality in taxation was urged, and to this end a tax on money at interest, — while the impracticability of taxes on easily concealed wealth was seen.<sup>4</sup>

**James Steuart: the last of the "Mercantilists."** — Sir James Steuart<sup>5</sup> (1712–1780) was the chief English Mercantilist writer of the eighteenth century. Indeed he has

<sup>1</sup> See Seligman, *Progressive Taxation in Theory and Practice*, pp. 158, 162. (Publications of the American Economic Association, 1908.)

<sup>2</sup> *Leviathan*, p. 271. (Reprint of 1881.)

<sup>3</sup> *A Treatise of Taxes and Contributions* (1677), p. 68.

<sup>4</sup> See Davenant's *Essay on Ways and Means*.

<sup>5</sup> Feilbogen, "James Steuart u. A. Smith," in *Zeitschr. f. d. ges. Staatswissenschaft* (1889); Hasbach, *Untersuchungen über A. Smith*, pp. 81 ff. (1891).

been called the last of the Mercantilists. Following the Stuarts into exile in 1745, he lived in France, Germany, Holland, and Italy; and his book (1767) is largely a collection of observations made during this time. Its title is *An Inquiry into the Principles of Political Economy, being an essay on the Science of Domestic Policy in Free Nations, in which are particularly considered Population, Agriculture, Trade, Industry, Money, Coin, Interest, Circulation, Banks, Exchange, Public Credit and Taxes*. This seems to be the first use of the term Political Economy in an English book. His idea of the science has Mercantilistic earmarks: "Œconomy in general is the art of providing for all the wants of a family, with prudence and frugality. What œconomy is in a family, political œconomy is in a state. . . . The principal object of this science is to secure a certain fund of subsistence for all the inhabitants" and to render it secure. Economics is an art. Mercantilist ideas concerning population also appear.

Money and banking are treated at considerable length. Steuart justifies interest, but has no clear understanding of capital—as was commonly the case before the Industrial Revolution. Also, like Child, he feels that a low rate of interest would be beneficial, only governmental measures to secure it should be gradual.

He has some sound ideas on price, regarding it as determined by demand and supply, and distinguishing "effectual" demand; and Adam Smith has been criticized not unjustly for not referring to Steuart on this point, as Steuart's work was well known to him.

It is interesting to observe the influence of French thought upon Steuart. In France the Physiocratic doctrines, to be described shortly, were taking shape. Accordingly we find stress laid upon the agricultural surplus as conditioning the growth of population and industry, and his model state was pervaded with a characteristic unity and harmony.

The book is diffuse and woefully lacking in clear definition and accurate statement. This fact, together with the

changes wrought by the Industrial Revolution and the appearance of Smith's *Wealth of Nations*, deprived Steuart's work of any considerable recognition or effect, though it appears to have had some influence in Germany.

**The Philosophy of the Mercantilists.** — Several of the leading Mercantilist writers were philosophers, and, of course, all proceeded upon certain fundamental assumptions concerning man's place in the world and the meaning of industrial and social life, though they may not have been conscious of this fact. Theirs was the philosophy of materialism, as defined in the introductory chapter of this History. Hobbes, in his *Leviathan*, wrote that "nature hath made men so equal, in the faculties of the body, and mind" that no great difference exists among them, and no one can claim any benefit therefrom to which another may not pretend. Locke, though somewhat inconsistent, on the whole may be said to have made environmental influences primary and to have regarded the mind as passive.

Self-interest was the force more or less consciously assumed by all to motivate men, and the principle of least sacrifice was supposed to guide them. Thus Hobbes stated that "every man is presumed to do all things in order to his own benefit," and Fortrey that "Interest more than reason commonly sways most men's affections . . . and the hope of gain commonly bears so great a sway amongst men, that it alone is sufficient to prevail with most."

The Mercantilists, furthermore, regarded self-interest as leading to clashes of interest between individual selves and the state. Hobbes thought that men differ from ants in that among these creatures the common and the private good are the same, while among men there is continual competition for honor and dignity.<sup>1</sup> Fortrey wrote bluntly: "But private advantages are often impediments of publick profit . . .";<sup>2</sup> and Child urged his readers to "warily distinguish between

<sup>1</sup> *Leviathan* (English Works), Vol. III, p. 156.

<sup>2</sup> *English Interest and Improvement*, p. 3.



the profit of the merchant and the gain of the kingdom, which are so far from being always parallels, that frequently they run counter one to the other."<sup>1</sup> Clearly, these men held to no preconceived notion of a natural harmony of interests, but rather anticipated conflict. In fact their ideas here and concerning population contain some seeds of pessimism.

**Critical Estimate and Summary.**—It must not be thought for a moment that the preceding statements will apply to all writers who may properly be called Mercantilists, nor that they will apply in their entirety to any one of them. In some cases they are generalizations or analyses, which the men of the seventeenth century do not appear to have made expressly. In other cases there were exceptions, some of which have been pointed out. But it is believed that a congress of Mercantilists would have agreed by a large majority vote to any of the above propositions which have been made in a general way.

✓ The conclusions to be drawn from the foregoing discussion seem to be that the Mercantilists were inclined to lay too much weight on the advantage of gold and silver as compared with that of other commodities; that they overestimated the value of commerce, or, perhaps it would be better to say, underestimated the relative importance of agriculture and other branches of human industry; and that they erred in supposing that a favorable balance of trade necessitated a benefit in the long run. They were in error, too, in being too much inclined to regard what one nation gained as necessarily the loss of another. A harmony of interests, it is true, does not always obtain as between different countries. A good part of what England gained by the Navigation Act, Holland lost; American competition at the beginning of the twentieth century was injuring very sensibly the interests of important classes in England and on the Continent. ✓ Nevertheless a more scientific examination into the theory and practice of international trade was ere long to show economists that both parties generally gain.

<sup>1</sup> *Discourse of Trade*, preface.

Industrial developments led the Mercantilists to abandon the doctrine of just price, though traces of the idea may be found, and they were forced to give more consideration than their predecessors to "extrinsic" or market values, and to the subjective elements therein. They maintained the concept of "intrinsic" value, however, and consequently did not make the clear distinction between value and utility that was necessary before much progress could be made. A cost theory of value with the labor element emphasized was held or implied by some of the most prominent writers. On the whole, interest was defended and a few had some inkling of the reasons for it. Many, however, thought it was something to be determined by the state, and thus showed imperfect ideas about capital.

Criticism of the Mercantilists' ideas has been carried too far in not a few cases. They contained errors unquestionably, and the germs of an unhealthy development; but they are far from a mass of absurdities when considered, as they must be, with regard to time, place, and, above all, to the spirit of the people. It is nonsense to think of exports exceeding imports in all countries. But the Mercantilists never claimed this belief. They did not generalize. They were laying down the principles of a national political economy, not a cosmopolitan one. War was the normal thing, and a large degree of self-sufficiency a practical necessity.

Some explanation of their ideas concerning treasure has already been given. Now let it be forgotten for the moment that gold and silver are money, and let them be considered merely as other commodities. Then let the question be put: how is a people which has not the commodity, gold, or the commodity, silver, but has other commodities, to obtain the former peacefully? The reply is simple: by exchanging commodities. One can conceive of no other way. Now that is one thing which the Mercantilists of England, France, and Germany wished to do. They wished to trade off some of their wares for gold and silver, and they actually accomplished their purpose. Spain lost gold and silver, and they

obtained it. As a temporary expedient under existing conditions, the balance of trade theory was justifiable. The Mercantilists erred chiefly in so far as they regarded it as a proper permanent national policy. But is the error not natural? Most men hold the same notion to this day, and that without the reasons which existed over two hundred years ago!

To apply a practical test, it may be said that Mercantilism was for a time fairly successful. The French free trader, Blanqui, acknowledged freely the benefits France derived at one time from a governmental supervision of trade and commerce. Even Adam Smith admits that Cromwell's famous Navigation Acts, which prohibited foreigners from bringing into England any goods that were not the product of their own country, were of advantage to England, and approves of them. As to German Mercantilism, Mirabeau wrote of Silesia, a region which received particular attention from Frederick the Great, "There reigns there a population, a culture, and an industry truly immense." And other contemporaries confirm this, explaining the want of prosperity in other German states by a lack of proper initiative on the part of the governments. Under the conditions of the time there was a lack of energy and go-ahead on the part of private individuals, so that when the government did not lead, stagnation in industry was the rule.

Coupled with this idea is the fact that Mercantilistic philosophy was based upon a belief that private and social interests are not necessarily in harmony. The reader of the Mercantilist pamphlet was to distinguish warily between the profit of the merchant and the gain of the kingdom, for "frequently they run counter one to the other."<sup>1</sup> This concept by no means had the content of the similarly worded one common to-day, nor did it lead to all the conclusions now drawn; rather, Mercantilism often meant absolutism and the means by which the ruler and certain privileged classes could use the state for their own aggrandizement.

<sup>1</sup> Child, *Discourse of Trade*, preface.

Then, as now, however, regulation of industry by the state was the logical outcome.

The essence of Mercantilism proper was the application of the independent-domestic-economy idea of self-sufficiency to nations, — an old system of thought to a new group of phenomena. One sees it in the attitude of the state toward trade and industry; it appears in the balance of trade idea; it lies back of the overestimation of precious metals. This was more or less conscious with the Mercantilists. Mun wrote concerning the balance of trade: “. . . it cometh to pass in the stock of a kingdom, as in the estate of a private man.” Child puts it as follows: there is “a great similitude between the affairs of a private person, and of a nation, the former being but a little family, and the latter a great family.”<sup>1</sup>

It is, then, simply the idea that has always dominated the trader and which is prevalent among merchants to this day: patronize home industry; so conduct your business that the profit and loss account of the year's trading shows a balance in your favor; etc. “Whatever nation,” says Davenant, “is at a greater expense than this balance admits of, will as surely be ruined in time, as a private person must be, who every year spends more than the income of his estate.”

Thus we arrive at a body of government regulation of commerce and industry directed toward securing a large net profit for the state as a trader, in the shape of treasure. This is Mercantilism proper.

<sup>1</sup> *Discourse of Trade*, p. 164.

## APPENDIX TO CHAPTER VII

Through Professor Gustav Schmoller's admirable little work on *German Trades in the Nineteenth Century*<sup>1</sup> we can trace in detail the operations of Mercantilism in Germany. From 1650 to 1800 Prussian industry was directly under the guidance of the state authorities. It is true that in some respects the monarchs of Prussia exercised their power to increase industrial liberty; but only in so far as it seemed good to them, and they never let the reins slip out of their hands.

The Great Elector, Frederick William, issued edicts in 1667, 1669, and 1683 to encourage the cultivation of places that had been laid waste by the Thirty Years' War. One measure attempted to draw people to the cities by removing the tax (*den Schoss-scot*) resting on houses and substituting an excise (*Accise*) in the cities, with the expectation that this would cheapen houses and reduce the cost of living. This was not a financial but a political measure, it must be noted, and was an act of state interference. It had the desired effect. A large demand for houses manifested itself in the Prussian cities, and many merchants and tradesmen immigrated. Edicts were issued in 1686 and 1688 to improve the whole organization of the trades. Many restrictions which the guilds had kept in force, limiting the number of masters, journeymen, and apprentices, were removed. All immigrants received free of charge the rights of a master tradesman and those of a citizen. The linen industry in Ravensberg in Westphalia was assisted by an institution of state for measuring the length and breadth and determining the quality of linen and stamping it accordingly. The effect of this was to give purchasers confidence in the products of the manufacturers.

Frederick I, who reigned as king from 1701 to 1713, continued the policy of the Great Elector. Immigration was artificially encouraged. Magdeburg was rebuilt by settlers out of the Palatinate. Up to 1690, forty-three new kinds of trades had been established in the Mark, the province in which Berlin is situated, by the French and the Walloons.

Frederick William I ("der sparsame kluge hausväterliche Tyrann"), who reigned from 1713 to 1740, went still farther in the direction in which his predecessors had gone. He forbade the

<sup>1</sup> *Die Deutschen Kleingewerbe im 19ten Jahrhundert* (Halle, 1870).

exportation of raw material, especially of wool. The importation of foreign manufactured articles was either entirely forbidden or rendered difficult by the imposition of heavy duties. The government established fullers' mills, dyeing establishments, presses, and wool magazines. To encourage certain classes of foreign artisans to marry, privileges were granted them for *three years* after marriage—among others, full exemption from taxes or exceptionally low taxes and freedom from military service. Several times, as in 1718 and 1721, lists of tradesmen and artisans who had failed in different cities or had quit business were published, so that the vacancies might attract attention and call in others to take their places.

Frederick the Great (1740–1786) continued his father's policy. He granted religious and intellectual toleration, and administered justice with impartiality, not merely for the sake of these good things themselves, but also to increase population by making Prussia the goal of emigrants fleeing from persecution. His efforts brought at least 30,000 immigrants into Silesia alone.

Important industrial activity was the result of this application of the principles of the Mercantilists. Schmoller enumerates the following industries which owe their origin to the policy of Frederick the Great: the mines in Silesia; an iron manufactory in Eberswalde (Neustadt-Eberswalde until 1876); the Berlin iron foundry, in which the entire Berlin industry in manufacturing machines had its origin; the manufactory of silk in Crefeld; the weaving industry in Elberfeld and Barmen; and the linen industry in Bielefeld. Dutch bleaching establishments were founded.

A court was established which exercised jurisdiction over matters of commerce and bleaching; and to crown the whole, state diplomacy was used to assist the manufacturers in selling their products. Spinning and weaving were controlled by minute regulations. It was forbidden to export yarn. Spinning was encouraged in every way; the soldiers were ordered to spin; the spinners of cotton were paid annual premiums, and received privileges such as exemption from taxation. Edicts were issued and regulations framed for the purpose of assisting artificially the small tradesmen to obtain credit and the means of procuring raw material.

## CHAPTER VIII

### EARLIER GERMAN MERCANTILISTS AND KAMERALISTS<sup>1</sup>

Teutschland hat zu seinem schaden,  
O der grossen raserey!  
Fremde kauf-leut eingeladen,  
Das es ja bald geldarm sey.  
Fremde waaren, welche leyder!  
Bringen nichts als fremde kleider,  
Machen unser teutsche welt  
Reich an hoffart, arm an geld.

VON HORNIG.

1. **Résumé of the Nature, Scope, and Development of Kameralism.** — For some three hundred years or more the economic thought of the German states and Austria was largely embedded in that body of learning known as Kameralism or *Kameralwissenschaft*. This was the German Mercantilism, a Mercantilism which deserves separate study because of its peculiar problems, its relatively full and consistent formulation, and its close relation to more recent German Economics.

In the Middle Ages the word *Camera* (German *Kammer*) designated the place in which the royal income was stored. By the Frankish kings the royal treasure chamber was called *Kammer*, and the term soon came to apply to the royal property. Thus Kameral affairs concerned the economy of the prince, and Kameralism was the art which maintained,

<sup>1</sup> For a more complete statement of Kameralism, see Small, *The Cameralists*; Chicago, 1909. The present chapter was prepared some months before the appearance of Professor Small's book, and, its conclusions having thus been independent, the substantial unanimity of the two is of interest. The writer has had access to a copy of Hornig's *Oesterreich über alles*, which important work Dr. Small unfortunately could not obtain. The writer would, perhaps, lay more emphasis on the economic element in Kameralism than does Professor Small, — while he realizes the large proportion of politics and technics embraced.

increased, and administered the royal income. After the erection of the Hofkammer by the Emperor Maximilian, — at Innsbruck and at Vienna (1493 and 1501), — a knowledge of the principles and duties involved in its administration became necessary, and chairs for instruction in such knowledge were later founded in various universities.

At the outset, Kameralism was a combination of ideas, political, juristic, technical, and economic; but toward the close of the Middle Ages it became largely separated from jurisprudence, while it was extended to include, besides the original idea of domanial and regalian administration,<sup>1</sup> broader matters of economic policy. Then, during the eighteenth century, technical subjects were more and more dealt with, until in the early nineteenth century there was a reaction, and economics was severed from technics. This was, no doubt, partly effected by the evolution of political economy in France and England. Schmalz, writing in 1819 (*Encyclopedia of Kameralistic Sciences*), made Kameralism include all matters pertaining to the property and income of the people, their acquirement and increase, and taxation. Two distinct branches were technology and political economy. And Rau (*Ueber die Kameralwissenschaft*, 1825) distinguished private and technical economy from the public and political.

Throughout its entire development Finance figured prominently in Kameralistic thought.

To understand this thought one must remember that the great stimulus to the thinking of the early Kameralists lay in the relatively backward industrial condition of the German states. From the reign of Charles V to the close of the Thirty Years' War, Germany was split up into a political chaos of struggling princely and burgher economies. In vain (1522–1523) was the project of a national tariff wall raised; and Copernicus proposed a uniform currency to no

<sup>1</sup> Domains included royal estates, crown lands, etc., regarded as sources of revenue for the rulers. Regalia included many rights and prerogatives, for which see below, p. 149.



avail. The political struggle concerning coinage ("Der Münzpolitische Streit") of 1530 was typical.

During the continuous warfare prior to the peace of Westphalia (1648) cities and country districts were depopulated, while heavy loads of debt were accumulated by sovereigns. Torn by internal dissension, overrun by Turk and Frenchman, outstripped in trade by the vigorous activity of Holland, France, and England, there was need of action. The need of remedies was especially felt after the Thirty Years' War.

Kameralism became a study or discipline for training of officials, largely for the work of remedying the economic evils which afflicted the German states in the sixteenth and seventeenth centuries.

In this situation, coupled with an undeveloped system of taxation, lay the roots of the German Mercantilism.

Beginning about the middle of the sixteenth century the rise of ideas characteristic of German Mercantilism or Kameralism may be traced in the thought of Luther and of Ossa (1506-1556). But George Obrecht, who was made professor of law at Strassburg in 1575, appears to be the first real Kameralist, with Besold — also a law professor — following. Bornitz and Klock (1583-1655) came shortly after, and are more important. These writers generally emphasized the importance of money and a dense population, and placed great confidence in government regulation; while differing on such points as the advisability of depending on domanial revenue to support the government, the nature and scope of regalian rights, and a reduction of the legal interest rate. Chapters on such technological subjects as fishing, agriculture, the silk industry, etc., were often presented.

Better known and more influential than any of the preceding was Seckendorf (1626-1692), the author of *Der Teutsche Fürstenstaat* (1655). He may almost be called the father of Kameralism. Like his fellows, he favored a dense population and restriction of exports; but he opposed gild monopolies and was more moderate in his views on

government restriction. His tendency to separate economic considerations from those of a political or merely fiscal and administrative character is noteworthy.

To be associated with Seckendorf are Bechers (1635–1682), Hornig (or Hörnigk), and Schroeder (1640–1688); while with Gasser, Daries, Dithmar, Zincke (1692–1768), and Justi (d. 1771), Kameralism became a university study and was more systematically developed.

2. **The Economic Thought of Some Typical Kameralists.** — (a) *Bechers' "Political Discourse": 1667.* — In the fore part of his *Political Discourse*<sup>1</sup> (1667) Dr. Johann Joachim Bechers gives us a statement of the rules which should regulate the various orders of society in Mainz, — the upper classes as well as merchants, artificers, the poor, Jews, and beggars. The quality and price of goods were to be regulated, forestalling prohibited, and, in general, the late-medieval market and handicraft regulations enforced. The authority of the guilds, however, must be decreased, and if a workman were skillful, he might work at his craft whether fulfilling guild requirements or not (pp. 71–83). He recommends that the three productive classes, merchants, handicraftsmen, and peasants, should be guided by one head official to the end that they might coöperate, and so cause the community to grow by advancing its business. "But, because . . . this consists in negotiation and sale, it is easily to be understood that of everything which hinders it or the business and population which arise from it, and on that account weakens the community and its business and all the utilities which result, nothing is so obstructive as to burden merchandise and merchants with high tolls and imposts; for thereby will the tradesman be impelled to furnish his wares dearly in order to cover such imposts" (p. 99). As a result, either foreigners would get the trade, or the consumption would be decreased and trade weakened. So

<sup>1</sup> *Politischer Discurs, von den eigentlichen Ursachen des Auf und Abnehmens der Städte, Länder, und Republicken, in Specie, wie ein Land volkreich und nahrhaft zu machen.* 3d ed., Frankfurt, 1688; 1st ed., 1667; 6th ed., 1759.

with handicrafts: heavy taxes on the means of subsistence make artisans charge more for their work, and purchases are made abroad, while these results cause the agriculturist to lose his market.

Consumption or sale<sup>1</sup> is most necessary to hold the three groups together and bring prosperity. When the market is good the merchant sells, the manufacturer works day and night making things for the merchant to dispose of, and the agricultural worker produces raw materials. But the merchant is the keystone. Upon him and his sales rest the nourishment and increase of the people.

"Those are proper traders who through their stock bring it to pass that raw stuffs remain in the land and are worked up by the subjects thereof, . . . that instead of foreign manufactures coming into the land and money going out to pay for them, not only does such money remain in the land, but the exports draw in trade (or wealth): These, say I, are useful members of the community" (103).

Markets are of two kinds: domestic and foreign. The former is a *privatum privilegium*, is certain, and to be kept for home traders. The foreign market, if the foreigners are clever, is not to be hoped for as a *privilegium*, and one can draw away the foreigners' money only by the cheapness and goodness of one's wares. To this end, cheap living through low import duties on food, etc., is desirable; also, encouragement to good artificers, and good masters and materials.

Bechers makes much of three great evils: *monopolium*, *polypolium*, and *propolium*. These tend to destroy the state. The first, or monopoly, destroys population by restricting access to trade, as do the guilds with their many requirements. On the other hand, Holland, by abolishing all restrictions, has brought on a "polypoly" which exists when there are more peasants than land, more handicraftsmen than work, more merchants than market. This destroys subsistence. The idea of a "propoly" seems less distinct, Bechers himself stating that it tends to monopoly. The East India

<sup>1</sup> "Consumption, *debit*, oder *Verschleiss*."

Company was a "propoly." To forestall or to take advantage of a cheap year to buy up for the purpose of selling dear at a later time also fell under this head and tended to destroy the community.

To Bechers the institutions of greatest advantage to a state were a well-established currency, a free market house (*Kaufhaus*), a well-manned workhouse (*Werkhaus*), and a rich bank (267). The first three would maintain the supply of money; the last would bring in more from abroad.

He seems to have had some understanding of the principle now called Gresham's Law, and discusses the measures tried by Sweden, Holland, and England for retaining their good coin.

As no ware is dearer or more necessary to a country, he lays it down as a general rule that by every means money should be kept at home, and to this end advocates a five per cent impost on specie exports. Coins should be of pure metal, but might be advantageously decreased in weight. By the establishment of exchange banks on the borders of the country, the flow of precious metals in and out of the country might be controlled, — only domestic coins to pass current within.

Bechers wrote much concerning foreign commerce, and favored developing it through the agency of regulated companies.

On the whole, though he did not overlook the importance of agriculture, nor desire an overdense population, he was decidedly a Mercantilist.<sup>1</sup>

(b) *Hornig; Rules for making a nation self-sufficient: 1684.* — *Oesterreich über alles, wann es nur will*<sup>2</sup> is the title of von Hornig's (or Hörnigk) book. It was one of the best known of the Kameralistic writings, though now quite rare. The title strikes its keynote, — Austria above all if only she will. By systematically exploiting her resources, developing

<sup>1</sup> Bechers seems to have given up some of his Mercantilist doctrines and to have displayed communistic leanings in his later years.

<sup>2</sup> Ed. of 1707 quoted; 1st ed. in 1684.

thrift, excluding certain foreign manufactures, etc., she might surpass her neighbors in power and wealth.

Hornig makes "the might and excellence of the land consist in its overplus of gold and silver and all other things requisite or convenient for its subsistence, and indeed all such as, in so far as is possible, come from its own resources, — and at the same time their proper (*rechtmässig*) care, use, and application" (p. 33).

This passage brings out the chief point in Hornig's thought: self-sufficiency. He accordingly proceeds to examine Austria's balance (*bilancia*), considering first her deficit, so to say, in gold, silver, and other things, and then her surplus; concluding that her great natural resources in salt, bread, fish, wine, etc., made it possible for her to increase production and secure a favorable balance (chaps. xi, xii, xiii).

His idea of wealth and of favorable balance is not a narrow one. A land having only gold and silver is indeed rich (*reich*), but is far from the goal of self-sufficiency; for its people can neither eat nor wear those metals (27–28). On the other hand, one having all but gold and silver, while it could stand alone longer, is also dependent; for, we are told, gold and silver seem indispensable to most men, and such a land would depend upon the foreigner's good will for the exchange of its goods for gold and silver.

In making a common comparison between the bases for the industrial success of Holland and England, Hornig uses a striking figure: Holland's gold magnet is stronger in attracting, England's in retaining, the precious metals (30).

Thus the question with Hornig is always one of foreign comparison. He specifically states that power and wealth have become relative terms, depending not on the absolute quantities of power and wealth possessed, but on their relations to those of neighboring lands.

The analysis of economic categories is interesting. All matters useful for human subsistence are of two sorts: first there is the thing itself; and secondly there is the proper

(or legal?) care and application, especially suitable arrangements for domestic and foreign industry and trade (27, 31). The former depends upon nature alone; the latter partly on nature, partly on human wishes. In the last analysis all the things themselves fall into two classes: (1) gold and silver, (2) all other things for nourishment, clothes, shelter, etc. Gold and silver are equal to all other things in value and use (*Werth und Nutzen*), and are of quite another sort on account of their "civil use."

But to return to Hornig's thesis. He lays down nine "fundamental rules for a general national-economics." These rules were quoted by other writers, and exerted much influence. They are fairly typical of the dominant mixture of Kameralism proper and Mercantilism.

I. The earth and all on and in it should be examined most accurately to learn how everything may be made most useful to the nation; and in all things which concern gold and silver no pains or costs should be spared.

II. "All the goods which occur in a country and which are not used in their raw state should be worked up in that country as far as possible."

III. For the execution of these rules people should produce raw materials as well as work them up. Thus it is important to regard population, and to keep men from foolish occupations; and by all devices to instruct and encourage artisans and handicraftsmen, taking instructors from abroad if necessary.

IV. Gold and silver once in the country should if possible be kept there; but they must not be stored up, but kept in constant circulation. Nor must they be invested in unprofitable works.

V. The inhabitants of a state should seek, in so far as is possible, to satisfy themselves with domestic goods and forego foreign products.

VI. "Should the importation of foreign goods be necessary, they should not be paid for with gold or silver, but with exchange of domestic goods."

VII. "Such foreign goods must be imported in the raw state and be worked up in the country."

VIII. In all industry it must be considered how surplus goods can be exported in finished form for gold and silver, and with this object try to drive trade even to the ends of the earth.

IX. It is not as a rule permissible that goods of which the state has a surplus be imported, even if possible to buy the foreign goods for less than the domestic.

Hornig thought the exclusion of imports easy and simple (125). By this means a market would be guaranteed to the domestic producer: "When money no longer goes to foreigners at least ten millions annually will remain in the land and turn to business capital (*Verlagscapitalien*); and the assurance of the market, with the accompanying certainty of profits, will encourage capitalists to loose their cash. The foreign artificers will be compelled through lack of work and bread to come to the father-land to seek both."

The restrictions of the guilds received considerable criticism, but he does justice to the good order enforced by them.

Von Hornig's contemporary, von Schroeder, entered public service in Austria in 1673 to conduct a factory (*Manufakturhaus*) according to Bechers' plans, and was later court financial councilor in Hungary. He is notable for his attack upon gild monopoly, and his advocacy of tolls, public loans, and the balance-of-trade idea.<sup>1</sup>

(c) *Daries' First Principles: 1756.*—Passing over the several writers mentioned above, the work of Joachim Georg Daries must be considered. His *First Principles of Kameral Sciences* was published in Jena, 1756, about ninety years later than Bechers' book. Shortly before this time Frederick William I had become interested in this subject, and in 1727 had founded chairs of Economic and Kameralistic

<sup>1</sup> *Notwendiger Unterricht vom Goldmachen* (1648); *De Ministrissimo* (1663); *Fürstliche Schatz- u. Rentkammer* (1686); *Disquisitio politica, vom absoluten Fürsten*, Schroeder spent considerable time in England, and was much influenced by English thought. On Schroeder see Erbk, *Wilhelm von Schröder*. (A "Separate" from the reports of the Royal Academy of Sciences in Vienna. Vienna, 1910.)

Sciences at Halle and Frankfurt-on-the-Oder.<sup>1</sup> This had given an impulse to further study, in which it is noteworthy that technology was emphasized.

In his preface Daries expresses indebtedness to Schroeder and Seckendorf, and refers to Dithmar, the latter being the incumbent of the chair established by Frederick William in Frankfurt. He proceeds to recite the objections then being made to the study of Kameralism: it was said to concern things which experience alone could teach, its subject matter was too complex for generalization, and some thought that only burghers or peasants should busy themselves about such matters.

After disposing of these prejudices, he proceeds to consider the sources of annual income, which are of two sorts: one fixed and calculable, the other the result of chance (p. 11). The former alone can be dealt with scientifically. It consists of (1) aptness in application of human powers, (2) acquired goods which can be of annual use. These form what he calls a Fund (*Fond*) or Capital (!). They make a surer source of income than skill.

His definition of the term "Capital" is suggestive: "We take it in the common sense to designate that earned property which we accept as enduring so that it proves effective annually for our uses" (p. 15).

Now, a prince may be regarded either as a man, or as a royal personage or sovereign receiving a royal income. From the latter viewpoint, "the capital or fund of the princely income is the wealth of the State and the subjects." But to obtain this income, the capital of the subjects must not be encroached upon. It is constantly stated that the well-being of sovereign and subject are inseparable.

Daries' division of Kameralism is interesting. First comes Agricultural or Rural Economy, dealing with the forces of nature and their adaptation. Here tillage and

<sup>1</sup> These are often said to be the first professorships of political economy, but if they are so to be called the term "political economy" must not be given the full meaning it now possesses. Gasser was the incumbent of the chair at Halle.



cattle-raising are the chief subjects. Next he places Urban Economy, studying the ways in which art aids nature in workshops and factories. Then comes Police Science or Polity (*Policei*). Here such matters as population, education, care of the poor, and stimulation of industry are treated,—in short, all arrangements of the state for increasing the annual income of the citizens. Finally there is Royal Economy, which concerns the income of the prince and is Kameralism proper.

Polity or general police power (*Policei*) is clearly distinguished from religion and law. It deals with wealth. In so far as justice and religion aim at preventing poverty or increasing wealth, they belong with polity. The laws of polity must not contradict moral laws; they must only determine how morally-permissible things can be directed to increase the wealth of the state. By nature, men are free to do anything in accord with reason; but polity may restrict and limit this liberty.

"A regular polity makes good, and consequently rich, subjects, good and rich subjects make rich and powerful Princes" (394).

In his chapter on town economy Daries makes an analysis of costs which is most interesting. The producer should investigate these carefully and see that allowance is made for (1) raw materials, (2) interest on the value of such materials till the finished good is sold, (3) the price of tools, and (4) their interest and depreciation, (5) labor, (6) interest on wages, (7) interest on buildings used, and (8) expenses of marketing, accounting, etc. When these items are established as a capital and the price received for the product replaces this capital with interest, the business is carried on with profit (233).

On the whole, he subscribes to the doctrines of Hornig, but is much more liberal. He does not believe that gold and silver should never be exported, his rule being the following: "The export of gold and silver is only to be obstructed to the extent that it does not work to the good of the state.

It is, on the contrary, an evidence of political shrewdness to give foreigners gold and silver if it is possible by this to further the well-being of the State" (531). And he opposes restriction of trade; for it would be better to seek how to direct the production of the nation into the most profitable industries. As to the desirability of always exchanging goods for precious metals, he remarks that circumstances exist under which the mere exchange of goods for goods is more advantageous. One country has especial advantage for one industry, another for a different one. By exchange of their respective products both profit (536).

On the point of population he was an orthodox Mercantilist. "All industries which provide means for nourishing more subjects in a country are useful to it." A dense population is all but made the source of the wealth of the state. It is not to be feared. *If order prevails* density of population increases the food supply and trade and the income of the prince; and it is important for defense.

The foregoing is all drawn from Daries' chapters on Agricultural, Town, and Police Economics, the greater part of which is given to semi-technological topics, such as beer-brewing, linen manufactures, tillage, and cattle-raising.

He concludes with a book on the real or proper Kameral affairs, in which he discusses the income and expenditures of the prince, laying down rules for administering them. Chapters on Domains and Regalia, or regal rights, are included.

**3. Justi's Political Economy.** — The work of Justi, entitled *Political Economy, or A Systematic Treatise on all Economic and Kameral Sciences*<sup>1</sup> (1755), may be regarded as the climax of pure Kameralism. In it the great mass of Kameralistic doctrines was summed up and organized. There is little that is new, however, save the analysis and classifications.

In the first place some further idea may be gained from

<sup>1</sup> *Staatswirtschaft, oder systematische Abhandlung aller Oekonomischen und Kameral-Wissenschaften, die zur Regierung eines Landes erfordert werden.*

Justi concerning the classification of the subject matter. Economic science, he states, deals with the maintenance and increase of the means of private persons; Kameral science does the same for governments. But Kameralism proper is administrative in nature; for the business of the ruler is twofold, embracing besides polity and economy — which maintain or increase the means of the state — Kameralism, which seems to administer these means so as to promote the general well being. The latter, in a word, deals with the prince's revenue, its disbursement, and the organization and administration of his political business. One great branch of study is *Oekonomie*, which might be interpreted as administrative economics. Under it fall (1) Management (or private economics), (2) Police, dealing with the conduct and sustenance of the people, and (3) Kameralism and finance, which take up the methods and materials of commerce, and measures for promoting it.

The three great essentials to a flourishing state are freedom, safety of property rights, and a prosperous industry. For increasing the wealth of a state, these means exist: increasing population, foreign trade, and mining. Justi says that with good government and prosperous industry no limit should be placed to the increase of population, a statement which, in its assumption, begs the question as later raised by Malthus. Though he lays great emphasis upon commerce and his balance of trade idea is pretty narrowly Mercantilistic, he does not overlook the importance of agriculture.<sup>1</sup> This was, in part, however, with the idea of procuring cheap food and low wages for laborers.

Justi is extremely inconsistent in dealing with the nature and increase of wealth, some juster ideas being mingled with the old errors.<sup>2</sup> Thus, at one point, he says that a land might be rich even if it had no gold and silver, and defines wealth as the supply of the comforts and necessities of life.

<sup>1</sup> It is interesting to note that he refers to Vauban in another connection. Vauban, a French writer, thought agricultural labor most important. See below, p. 162.

<sup>2</sup> *Staatswirtschaft*, I, pp. 152-155 (2d ed.).

But again we are told that gold and silver are necessary for exchange, and so a land is not rich without them. And, finally, he steps over into statements that wealth equals the supply of money.

It is clearly pointed out that the interests of the merchants are to be distinguished from those of the government, their gain not always coinciding with the public welfare, though it may do so.

One of the most notable points in Justi's book is his body of rules for levying taxes. Briefly they are as follows:<sup>1</sup> —

(1) Taxes should be so levied that they will be paid willingly.

(2) They must not restrict industry and commerce by interfering with freedom of conduct, credit, etc.

(3) They must be levied with relative equality.

(4) They should be sure and true, falling upon such objects as enable a certain and honest collection.

(5) They should be levied on such objects as will permit the least number of collectors' offices, and officials.

(6) They should be so levied as to amount and time of payment as to be most convenient for the subject.

Justi, in the third rule, considers both the benefit received from the government and the ability of the subject to pay. In this classification he anticipates to no small degree the famous canons of taxation laid down by Adam Smith.<sup>2</sup>

**4. Regalian Rights.** — In order to understand the foregoing references to regalian and domanial rights, and, indeed, a considerable part of Kameralistic writing, it is essential to grasp the significance of regalian or regal rights in connection with the evolution of economic thought. To the Kameralists such rights meant no legal theory, nor a merely political struggle between sovereign and pope or vassal, but the source of revenue. The regalian question, which reached its height in Germany in the seventeenth century, owed its significance largely to the backwardness of taxation and the taxation idea at a time when states needed

<sup>1</sup> *Staatswirtschaft*, II, 309 ff.

<sup>2</sup> Below, p. 212.

more revenue. Dependence on the income from royal domains was no longer possible. Some middle source of revenue must be found. Hence there was a tendency to expand fiscal policies by extending the number and scope of royal privileges.

Roscher distinguishes four groups.<sup>1</sup> First, the various feudal aids and duties were exploited. Thus knight service might be escaped by a payment; large amounts were demanded when land was sold; and when traveling the king lived upon his people through rights of purveyance and pre-emption. Secondly, there was a group analogous to domanial rights. For example, all property without an owner might revert to the king; buried treasure and the property of deceased aliens were his; etc. Then another source of revenue lay in the political activity of the sovereign: he shared in war booty, sold offices and protection, and received fines and confiscated property. Lastly, the state conducted directly or indirectly certain industrial enterprises, especially new trades, and industries in new lands. So it was with the post, lotteries, mining of precious metals, and certain branches of foreign trade. In this last case, and in the third, too, political objects may have been partly in mind. Altogether as many as four hundred regalian rights were sometimes distinguished.<sup>2</sup>

Now this mass of sovereign rights was rather chaotic and ill-defined. In keeping with the Kameralist's confusion of political, financial, and general economic matters, regalian rights appear to have been regarded as sort of middle ground

<sup>1</sup> *Geschichte der National-Oekonomik in Deutschland*, p. 159. These are not of fundamental importance, but are useful as giving a summary idea of the scope of regalian rights.

<sup>2</sup> In England Blackstone divided regalian rights into two groups: *majora regalia*, which embrace the prerogatives that concern the political character, the dignity, and regal power of the sovereign; and *minora regalia*, which concern the regal revenue. He tells us that the English kings had been shorn of much of their revenues, having granted them away to subjects; yet he distinguishes eighteen varieties, such as the revenue from bishoprics, rights of purveyance, rights of royal fish (whale and sturgeon), forfeiture and escheat, etc. These are the "proper patrimony of the crown," though English kings were largely dependent upon extraordinary revenue. (Blackstone's *Commentaries*, Bk. I, Chaps. 7 and 8.)

between domanial revenue on the one hand, and taxation proper on the other, and came to include an unanalyzed mass of tolls, duties, aids, and taxes which did not seem to them to fall under either of the other heads.

It has been suggested that this is a normal stage between what from a fiscal point of view may be called domanial and tax economies.<sup>1</sup> On the political side this stage corresponds to a transition period between feudalism and absolutism, its later phases being characterized by an extension of the prerogatives of the crown and the decay of the old nobility, while systems of taxation authorized by class or mass had not yet been established.

It remains to be noted that some of the later Kameralists took steps toward an analysis and delimitation of regalian rights. Justi classified them under four heads, as concerning highways, water, forests, and sub-surface wealth; while Sonnenfels went further and cut down the extent of these rights considered as fiscal devices by placing mine, salt, and tobacco regalia under taxation, and classing others as aids to *Polizei* or police power. Rau, however, clung to the old classification.

This tendency, though the source of considerable contention in its details, is in general logically necessary. The regalian rights lost their significance with the limitation of royal prerogatives and the growth of taxation. All that was left fell logically either under taxation, or under tolls and duties imposed for the control of consumption and the like.

5. **Kameralism and Mercantilism; Summary.** — Kameralism might be defined as German Mercantilism.<sup>2</sup> Like Mercantilism, it is difficult to define comprehensively as a body of thought. This much must be stressed: it was more than English Mercantilism. The representatives of both groups made much of government regulation, placing a naïve confidence in the efficacy of laws. Tariffs and taxes figured

<sup>1</sup> Roscher, *Gesch. d. Nat. Oek.*, p. 138.

<sup>2</sup> Remembering that Mercantilism must not be too narrowly confined to certain ideas concerning balance of trade and estimation of money.

prominently. Both regarded the precious metals as the most desirable form of wealth, emphasizing their distinctness. Both were animated by international rivalry, and both preached dense population, frugality, and self-sufficiency. But there the main points of similarity begin to cease.

A notable difference in the form and scope of the writings which contain the views of the two groups strikes one at a glance. The English Mercantilists were pamphleteers, writers of short tracts, not very comprehensive. The German writers set forth their doctrines in bulky volumes, dealing with all phases of their topic as they conceived it, and with much show of logical sub-division and arrangement. They were professors of law, finance councilors, and the like.

The German works, too, form part of a more connected body of thought. With their roots in medieval treatises and Roman jurisprudence,<sup>1</sup> the fruit of more modern German economics is in part theirs; for Kameralism, unlike Mercantilism, existed as such into the nineteenth century.

The Kameralists, with a few exceptions, were relatively less concerned with foreign relations, commerce, and the balance of trade idea than their more maritime neighbors in England and France. They made more of internal or domestic industry,<sup>2</sup> and to this end incorporated in their writings books or chapters dealing with the technics of agriculture, grazing, mines, and forests, and the various branches of manufacture. These subjects received little attention from the English Mercantilists.

This last difference is to a considerable extent the expression of different origins and objects. Kameralism began with the desire for efficient administration of the domains and regalian rights of the sovereign; and it retained the

<sup>1</sup> Bornitz, for example, constantly cites the *Corpus Juris*. Seckendorf's *Der teutsche Fürstenstaat* appears to be the first book (1655) on political economy written in German, the other Kameralists using Latin.

<sup>2</sup> Even of Hornig, Oncken says, "One sees that this German Mercantilism has its climax not in foreign trade but in domestic."

stamp of its beginning to the end. Kameralism embraced many things, but its proper part was ever the maintenance, increase, and expenditure of the prince's income, by which was meant the revenue of the state. As in the case of English Mercantilism, the interests of state and individual were *not* assumed to be in harmony. The German state, however, was somewhat different from the English state in the absolute nature of its prince's rule, so that politically Kameralism is more like Colbertism than English Mercantilism.

Moreover, the wasting and depopulation of town and country caused an unusual emphasis to be placed upon population; while the exhaustion of treasuries meant an equal attention to fiscal devices.

There is some difference of opinion as to the merits of the Kameralistic ideas about population. While the needs of their country were such as to make a problem different from that which later confronted Malthus, and while their qualification that order and good government must prevail should be remembered, yet it must be concluded that they often stated the benefits to be expected from an increase in population too absolutely. At points there seems to be a kind of optimism in their thinking. They were prone to assume that the other factors would develop in proportion. Sometimes, too, population was thought of almost as an end, — now for military purposes, now as an economic benefit. The chief criticism, after all, is that they did not go far enough in their thought, the result being a short-time policy rather than a general theory. Here, as elsewhere, we may judge leniently, but remembering that this is done not so much because these early thinkers had the truth as because they *were* early thinkers, and so our standard itself may be modified.<sup>1</sup>

<sup>1</sup> I would agree with Professor Small when he says that the Kameralistic ideas have been misrepresented. Also in his statement that "they did not qualify their statements about population quite as carefully as men must who have in mind the Malthusian chapter in economic theory." But it does not seem to me correct to say as he does that "the cameralists knew as well as modern economists do that



The importance of a knowledge of Kameralism to an understanding of German economics remains to be observed. Without its peculiar background of *Kameralwissenschaft* German theory would probably have been other than it is. One of the most obvious effects of Kameralism appears in the division of the science into general and special economics, and finance; and in the emphasis on the technical and financial aspects. Again, the early prevalence of a distinction between public and private interests, and the general recognition of the importance of legal advantages, special privileges, business arrangements, etc., and also of credit, may be traced to Kameralism. One cannot but be struck, too, with the similarity between the ideas of the Kameralist Daries and the economist Hermann concerning capital. In these and other ways German economics was affected by its peculiar heritage.

there was a limit beyond which more mouths could not be fed. . . . Substantially . . . they held tenable views of the subject as far as they went." *The Cameralists*, p. 15.

C. THE EVOLUTION OF ECONOMICS AS A  
SCIENCE



## I. THE FOUNDERS

To one who turns from reading a modern treatise on economics, whether it be Mill's *Principles of Political Economy* or the works of Wagner or Marshall, and takes up the various writings which have been dealt with in the foregoing pages, a great development is evident. Heretofore, economic thoughts have been gleaned mostly from books on religion, politics, or jurisprudence. At most, they have been rather sporadic pamphlets or essays, or treatises upon political and technical matters. Yet it would be misleading to say that these thoughts were unclassified or unsystematic. The writings of Aristotle, for illustration, were truly scientific. In the works of the Roman jurists and medieval scholastics, economic ideas were fitted into organized bodies of thought. The point is that they were not distinct. They formed no separate science, but lay inchoate within other bodies of doctrine, — ethics, jurisprudence, and the like.

To found the science of economics, then, it was necessary to sever these scattered economic ideas and bring them together in a separate system of thought. For this step the way had been somewhat prepared, especially by the Mercantilists and Kameralists, who made considerable progress in giving economic ideas separate attention. It was not until the middle of the eighteenth century, however, that Economics was really founded as a science. To recount the circumstances under which this development was achieved and sketch the main features of the new science is the object of the two following chapters, which deal with The Founders.

## CHAPTER IX

### THE PHYSIOCRATS AND THE REVOLUTION IN SOCIAL PHILOSOPHY

ABOUT the middle of the eighteenth century a group of French thinkers evolved a system of economic thought which forms one of the important roots of the modern science. One of their number styled that system "Physiocratie," and ever since these men have been known as the Physiocrats. The Greek words φύσις and κράτος signify the power of nature, the system of thought now under consideration being based upon a belief in the existence of natural laws which must be followed if men are to gain their highest well-being. This system was also known as the Agricultural System, and is so called by Adam Smith. The Physiocrats liked best to call themselves "The Economists" (*Les Économistes*).

The leading Physiocrats were affiliated with a school of philosophers, who, while differing on many points, were generally agreed in holding that all things are part of an interconnected system, proceeding from a common cause and governed by laws which are capable of human comprehension. These thinkers more or less consciously wrestled with the problem of reconciling mind and matter, and found their easiest point of attack to lie in the assumption of some supernatural power. They were prone to appeal to "Nature" or "Divinity" as a means to bridging the seeming gulf between the ideal and the material. Accordingly, inasmuch as they assumed the ultimate cause, they did not delay to establish by research their premises, but rapidly deduced such a connected series of doctrines concerning social life and industrial organization, that they may be called the founders of the first system of political economy. They

endeavored to include all the social phenomena connected with the production of wealth, embracing in their economics laborers, manufacturers, merchants, farmers or agricultural entrepreneurs, owners of large estates, and sovereigns. Thus the new teaching, whatever its faults, was much more comprehensive and systematic than Mercantilism, which was but fragmentary and emphasized foreign trade in a narrow fashion.

It should be noted at the outset that the Physiocrats, in view of the industrial situation which confronted them in France, turned their attention largely toward agriculture and regarded taxation as their chief practical problem.

**The Forerunners of the Physiocrats.** — Mercantilism has been described as embracing the group of economic and political doctrines which prevailed among the statesmen and political writers of the sixteenth and seventeenth centuries. It held sway on into the eighteenth century; but toward the end of the seventeenth protests against the extreme doctrines of that system had begun to be uttered even in its stronghold, England.<sup>1</sup> It is little wonder, then, that in France, a country more easily led into revolt, the abuses which attended and followed Colbert's régime soon brought on a violently negative economics. Physiocracy, though it meant much more, might also be defined as the revolt of the French against Mercantilism. This revolt, however, did not break out in any organized way until the middle of the eighteenth century, and a word should be said about the economic thought which intervened, — about the forerunners of the Physiocrats.

Melou ( *Essai Politique sur le Commerce*, 1734 ), although in the last analysis a Mercantilist, was full of contradictions, and may be regarded as a transitional writer: he believed that necessities of life are of more importance than gold, and reacted somewhat against paternalism and monopoly.

The first economic theorist of note to be produced by France, however, was Pierre Boisguillebert. An unsys-

<sup>1</sup> By Barbon, Child, Locke, and others. See above, pp. 111 f., 113 f., 123.

tematic writer, Boisguillebert's thought in many points seems to foreshadow the later school. He was a contemporary of Colbert's, and his work was stimulated by the misery which followed the financial abuses of Louis XIV's reign. Tax reform, then, was the burden of his first book,<sup>1</sup> equality in distribution and abolition of export duties on grain being the chief demands. Two essays were later added, one a *Treatise on Grain* and the other a *Dissertation upon the Nature of Wealth*. They treated land as the chief source of wealth and were written in the interest of the landed classes, containing arguments in favor of high prices for grain. In them he refers to Holland, Henry IV, and Sully,<sup>2</sup> praising the latter at the expense of Colbert. Quite significant was his attack upon the overvaluation of precious metals: wealth to him consisted rather in the supply of necessary and convenient things which satisfy man's many different wants. Such wealth seemed to depend, not upon political policy, but upon a natural harmony of industry.

Contemporaneously with Boisguillebert another Frenchman was driven by the same unhappy industrial state of his country to think similar thoughts. In 1707 Marshall Vauban published his *Project for a Royal Tythe*. He described the wretched condition of the peasants, which he, too, attributed largely to inequality in taxation. His project included a direct tax of one tenth of the product of agriculture. He would have permitted domanial revenues, some customs duties, and a few duties on consumption, but on the whole may be regarded as a pioneer of a simple system of direct taxation in which a heavy tax on land revenues was an important part. Vauban considered labor as the foundation of wealth; and of all labor, that in agriculture seemed most important.

Fénelon (*Télémaque*, 1699) in favoring freedom of trade

<sup>1</sup> *Détail de la France sous le règne présent*, 1695; this was enlarged by the addition of the dissertations on *Grains* and *Richesses* and published as *Factum de la France* in 1707.

<sup>2</sup> Sully had said, "Labourage et pasturage sont les deux mamelles de l'état," — tillage and pasturage are the breasts of the state.

and emphasizing the character of the people rather than their numbers, and Montesquieu (*Esprit des Lois*, 1748-1749) in holding that "natural laws" obtain in the social world and arguing for liberty, are also worthy of mention in making the transition from Mercantilism.

But most noteworthy of all is Richard Cantillon. Indeed, his *Essay upon the Nature of Commerce in General*,<sup>1</sup> published in 1755, may justly be called the forerunner of the science of political economy, for it is a general treatise and inquires into principles. Wealth he defines as being nothing other than the comforts and conveniences of life. The earth is the source or material whence wealth is drawn; labor is the force which produces it. The great merit of Cantillon's essay lies in its attempt to trace the circulation of wealth to its ends. He deals with internal trade between town and country, thus taking the sole emphasis away from foreign commerce. He argues that in a country where one half the population lives in towns, one half the agricultural produce must be consumed by the urban dwellers; and proceeds to discuss the distribution of that produce between landowners and farmers, and to analyze the expenses of the latter. Cantillon also discusses value and price, following Petty in basing them upon the amount of labor and land which contribute to produce the thing under consideration. His manuscript work was circulated in France and must be accounted an important factor in shaping the thought of the Physiocrats.

Of all the preceding men it may be said that, while they were to a greater or less extent opposed to Mercantilism, they were limited by it, and they founded no opposing system of economic thought. Cantillon comes nearest; but he seems to have held Mercantilistic ideas concerning the balance of trade, and, as a banker, his point of view was rather different from that of the Physiocrats.

<sup>1</sup> See reprint for Harvard University, G. H. Ellis, Boston, 1892. Originally written in English, the essay was translated by Cantillon for the use of a French friend.



**The Forces which Gave Rise to Physiocracy.**<sup>1</sup> — The condition of France which stimulated the writings of Bois-guillebert and Vauban long remained without reform, and is to be regarded as first among the factors which gave rise to Physiocracy. When one calls to mind the reigns of Louis XV and Louis XVI, during the time which immediately preceded the French Revolution, one remembers at once the main features of the situation. Louis XV was the last to exercise without restraint the royal power in France. He was the center about which everything else was made to move; outside of him there was no state. The consequences of the royal maxim, "L'État c'est moi," — I am the state, — were far more injurious to France under him than under the régime of Louis XIV. Court life was degenerate and corrupt. It was taken up with pomp, extravagance, and debauchery. The women of the court interested the king far more than the national welfare. An exhausted state treasury and increasing debts were the result of a luxurious and extravagant mode of life and unnecessary wars. To replenish the treasury, loans were made under unfavorable conditions. Taxes were heavy, and disproportionate rates were paid by peasants and commons. The nobles and clergy, who owned some two thirds of the land, were nearly exempt from direct taxation, while a variety of taxes was used to oppress the lower classes, — duties on goods passing from one province to another, the salt tax, the poll tax, the tithes, etc., not to speak of the services and burdens of the feudal system. But the worst feature connected with the taxes was the manner of collecting them. As one rents a farm with the intention of cultivating it so as to draw from the soil all that it can possibly yield, men, called farmers of the revenues, contracted for the taxes at a fixed price. All that they collected over and above that amount was their own, and so excellently did they understand how to exploit the people that they scarcely left them the necessary means of subsistence, while they themselves frequently retired with fortunes after a few years.

<sup>1</sup> Weulersse, *Le Mouvement Physiocratique en France* (Paris, 1910).

Land values were reduced, or kept from rising. The poor *métayer*, after paying the landowner a large share of his produce, was heavily taxed on the remainder; while the value of that remainder was reduced by duties which restricted markets at home and abroad, these restrictions being in sympathy with the Mercantilist policy of lowering wages and other expenses of manufacture so as to enable the country to export merchandise.

In short, France was like a great railway or factory which has made no allowance for depreciation or depletion; her productive power was impaired and her credit shaken.

On the other hand, the Mercantilist policy had exhausted its resources and had outlived its usefulness. The passing of its power in England was evidenced by Cantillon's *Essay*, with its emphasis on domestic trade and its tendency to regard the landowner as the only independent producer. But in France government supervision kept on in the same old ruts, until it came to be recognized by the thoughtful that trade and manufactures had been unduly fostered at the expense of agriculture.

In England an agricultural revolution was being consummated.<sup>1</sup> The profitableness of farming on a larger scale, with more capital and rotation of crops, was known to the Physiocrats. In fact, Quesnay, their leader, was personally interested, and applied the new methods on his own estate. These facts would further shake the prestige of Mercantilism and turn men's thoughts toward the importance of agriculture.

Finally, there were great subjective forces at work for change and progress. The evil state of affairs just described, coupled as it was with injustice and oppression, would ordinarily have given rise to immediate discussion and criticism. Under Louis XIV, however, this result was prevented by the wonderful ascendancy of the king and his dazzling military policy; while his successors took the most severe measures to stamp out writings hostile to the govern-

<sup>1</sup> See Toynbee, *Industrial Revolution*, Chap. III.

ment.<sup>1</sup> French thought, too, was but beginning to break away from the shackles of servile credulity, first as to religion, then as to politics. Toward the middle of the eighteenth century, in spite of oppression, this emancipation was rapidly effected. Notable changes had just been made and were being made in philosophy. Political writers were beginning to speculate about more rational and simple laws which would be based upon general principles of justice. The ferment preceding two epoch-making revolutions was in men's minds, a ferment tending toward the emergence of the individual as the center of philosophy and politics. It has been noted in Montesquieu. The last remnants of medieval credulity were crumbling. The natural sciences were making great strides, and there was a tendency to apply their methods to philosophy and social problems, seen, for example, in Hume and Descartes.

England and English thought were practically unknown to the France of Louis XIV.<sup>2</sup> In the two generations which followed that monarch's death "there was hardly a Frenchman of eminence who did not either visit England or learn English."<sup>3</sup> Among them were Montesquieu, Gournay, and Mirabeau. The philosophy of Newton was popularized; the writings of Locke became widely accepted; and the thought of Shaftesbury and Hume worked as a subtle leaven. Even more directly to the point, several English books on economic subjects were translated into French, among these being works by Gee, Child, Culpeper, and King (*British Merchant*).

**General Outlines of the Physiocratic Political Economy.**  
— 1. *Nature Philosophy.*— In order to understand the political economy of the Physiocrats it is necessary to grasp clearly their underlying philosophy. And in the first place come their "natural order" and laws of nature. Although there were some considerable differences among them, they followed Rousseau and the ideas of the time to the extent of

<sup>1</sup> See Buckle, *History of Civilization*, General Introduction, Chap. XII.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

believing in an ideal order of things, whose arrangements were perfect and whose laws were the will of God. This was the *ordre naturel*. It stood opposed to the *ordre positif*, whose laws are human and whose arrangements are the imperfect ones of existing governments, in this resembling the distinction made by Thomas Aquinas and ancient philosophers before him. In their teachings they sought to expound the principles of the *ordre naturel*, that nation being best governed whose laws, or *ordre positif*, come nearest to expressing the constitution of the natural order. The natural order of society is not to be confused with the "state of nature," for it is founded upon law and property rights. The Physiocrats, therefore, were far from adopting the conclusions of Rousseau. Quesnay, who, as will appear, was a leader, said that in the state of nature the *ordre naturel* is indeterminate.

It is, perhaps, possible to exaggerate the importance attached by the Physiocrats to the divine character of the *ordre naturel*. To be sure, one Physiocratic writer says that "the social order (*ordre naturel et essentiel de la société*) is not the work of man, but is, on the contrary, instituted by the Author of all nature himself, as all the other branches of the physical order."<sup>1</sup> But that it is not the work of man is to be noted; and above all that it is a part of the physical order. Another writer makes the following striking statement: "But to discover the causes and effects of the diversity of revolutions; to search out the simple forces whose action always combined with, and sometimes disguised by, local circumstances, directs all the operations of commerce, to recognize those special and radical laws, founded in Nature itself, by which all the values existing in commerce are balanced against each other, and settle at last into a fixed value, as bodies left to themselves take their place according to their specific gravity — this is to approach the subject (of commerce) as a philosopher and a statesman."<sup>2</sup> Certainly, the significance of the

<sup>1</sup> Mercier de la Rivière, *L'Ordre Naturel*, p. 38

<sup>2</sup> Turgot, *Éloge*.

Physiocrats' philosophy in leading up to the idea of general principles or social laws should not be overlooked. They believed that men in society are subject to natural laws in the same way that the equilibrium of nature is maintained by physical laws. These natural laws of society were the conditions upon which depended well-being. As Dupont de Nemours put it: In general, natural laws are the conditions essential, according to which all the phenomena of the world occur. In particular, that part of the natural law which is relative to man comprises the conditions essential to the assurance of all the advantages which the natural order can afford. These conditions "determine the use which we ought to make of our faculties in order to be able to satisfy our needs, to enjoy to the fullest extent our natural right . . .," etc. Influenced by contemporary developments in the natural sciences and by the philosophy of Locke, Descartes, and Malebranche, the Physiocrats first conceived that the production and distribution of goods are carried on according to fixed laws of nature, and then attempted to apply the exact mathematical methods of "natural science" to the problems of distribution.

The real general criticisms of this part of the Physiocrats' philosophy appear to be that they did not make clear and definite what their *lois naturelles* and *ordre social* were, while in applying their ideas they fell into an erroneous absolutism of theory. Quesnay in discussing *droit naturel* merely says that justice is a sovereign rule to be recognized by the light of reason, which determines what pertains to oneself and what to others;<sup>1</sup> and Dupont de Nemours vaguely adds that the laws of the social order embrace all the relations of which men are capable, deciding by the evidence of their reciprocal interests what their conduct toward their fellows should be for their well-being.<sup>2</sup> There was much talk of "rights" based upon the inherent nature of

<sup>1</sup> *Droit Naturel*.

<sup>2</sup> *La Physiocratie, Discourse préliminaire*. Note that the sanction is rational — not divine nor metaphysical.

man. Perhaps because of this lack of clarity and definiteness, the Physiocrats sought to put their ideas in a very sweeping way, and thus became liable to the charge of "absolutism" in their theories. They were continually referring to "immutable" laws; and, by assuming that their theories were founded on the nature of things, they made it impossible to reason effectively concerning causes. As already noted, to attempt to explain social institutions by saying that they are "natural" is but little if any raised above the anthropomorphic thought of the ancients.

Had the physical sciences been more highly developed, a different story could doubtless be told, for the Physiocrats clearly saw the interrelation between the physical and social worlds and were inclined to emphasize material factors. But the science of biology was hardly in its infancy, and they were dominated by metaphysical conceptions concerning innate and eternal ideas, the mind of God and the like.

Following Locke, the Physiocrats emphasized the individual and his rights. Private property was justified on Locke's grounds; it is the expression of individuality, to which it is essential. Moreover, they believed that the individual should have a large measure of freedom in disposing of his property. But it must not be thought that they advocated an unlimited individualism, for that the rights of each limited the rights of the other, was clearly seen.<sup>1</sup> The freedom of the foolish man must in some instances be restricted by the state.

The Physiocrats believed that the individual knew his interests best or, in other words, would act more in accordance with the law of nature than would government. The basis of their whole economic system may be truly said to lie in the principle of self-interest. They assumed that the individual calculates advantages and disadvantages and recognizes the necessity of coöperating with his fellows,—on these assumptions they based their theory of society.

<sup>1</sup> Quesnay said a law of individual action consisted in "de faire son sort, le meilleur qui lui soit possible sans usurpation sur le droit d'autrui." Oncken, "Quesnay," in Conrad's *Handwörterbuch*.

Hence their well-known maxim, *laissez faire, laissez passer*, that is, let things alone, let them take their course. The only function of government according to this doctrine is to protect life, liberty, and property.<sup>1</sup> Liberty and property springing from the very nature of man and being necessary to his individualism, human laws should merely recognize, formulate, and maintain them.

The conception of a great harmonious law of nature carried out through individual action is evidence of an exceedingly great optimism. Indeed, optimism has been a marked characteristic of French economics down to this very day. We find Mercier de la Rivière writing<sup>2</sup> that it is the essence of the *ordre naturel* of society — why, he does not say — that the particular interest of the individual can never diverge from that of the interest of the community as a whole, and that this is proved (*sic*) by the good effects arising from freedom of industry and commerce. Self-interest, he says, encouraged by freedom, actively and perpetually presses each individual to multiply the things which he sells and thus to increase the enjoyments available for all.

With such an underlying social philosophy the Physiocrats set to work to find the causes for the economic evils which afflicted France. Their predecessors, the financiers, had been content to experiment with taxation and money; they sought to get at the roots of the matter. These they found in the poverty of the people, as is indicated in their celebrated maxim, "poor peasants, poor kingdom; poor kingdom, poor king."

2. *The Produit Net; the Physiocrats' Ideas on Surplus.* — But the peasants' poverty meant the poverty of agricultural classes, and this, together with their nature philosophy, the influence of such writings as Cantillon's, their hostility

<sup>1</sup> Some of the Physiocrats favored a monarchical form of government as the one which could most easily enforce their reforms, but the duties of the monarch were merely to give effect to natural law. They were advocates of what is known as "enlightened absolutism."

<sup>2</sup> *L'Ordre Naturel*, last chapter.

to Mercantilism, and perhaps an unconscious bias arising from their leader's ownership of land, caused them to lay great stress upon agriculture. Only agriculture, they said, including mining, fishing, and other extractive industries, is able to increase the wealth of a nation. In agriculture, nature labors along with man, by her bounty yielding not only what the agricultural laborer or farmer consumes, but also a surplus which nourishes the other classes of society. The land, or agricultural labor, — both ways of putting it are found, — produces more than enough to satisfy the needs of the laborers in agriculture, and the excess allows commerce and the professions, favoring population and animating industry. Each cultivator was assumed to produce enough for eight persons, comprising his own family of four, and one family belonging to the manufacturing, commercial, or proprietary class.<sup>1</sup> Thus the Physiocrats introduced the idea of a surplus due to the bounty of nature.

This unique surplus was called by them the *produit net* or net product. It was similar to the rent of the classical economists,<sup>2</sup> being simply the value of that part of the total produce of extractive industry which remained after deducting the wages of the labor and the interest of the capital which helped produce it. It was no small contribution to the development of economic analysis that the Physiocrats made in bringing out the two facts, first, that the return to land differs essentially from the return to other productive agencies, and, second, that the return to land is something in excess of cost (including profits).

Commerce and manufactures were regarded as non-productive. They enhance the value of the raw materials which form the basis for the *produit net*, but only enough to pay for the labor and capital used in the process. Thus if a carpenter makes a chair from a piece of lumber, the whole difference between the value of the chair and that of the lumber is the compensation of the carpenter. No surplus

<sup>1</sup> *Œuvres de Quesnay*, Oncken ed., Tableau, p. 320.

<sup>2</sup> See below, pp. 262, 263.



remains for any one else. "The cost of commerce," wrote the Physiocratic leader, "although necessary, ought to be regarded as a burdensome expense levied upon the revenue of the landed proprietors;" and the Physiocrats held that a nation which depends upon manufactures and commerce must live off its capital.

It will be observed at once that this reasoning involves a peculiar definition of the word "production." To the Physiocrats production meant surplus making; that industry is productive which *increases* the wealth of the nation by making more things than are consumed in the process. If this definition be borne in mind, their doctrines are more easily understood, and do not seem so absurd as when the illogical attempt is made to apply our definitions to their words.

But more than this, to them production meant stuff making, and their surplus meant primarily a material surplus. The majority of them thought, or implied, that by growing wheat a man added to the wealth of the nation more than he did by making bread out of the wheat.<sup>1</sup> Only the growing or catching or digging up of something seemed to *increase* the world's stock of "real" wealth. This idea of productivity and the nature of wealth was in keeping with their nature philosophy, and was an expression of their reaction from Mercantilism. They saw that money was not the most important thing; but they went too far in their distinction between natural and artificial wealth, and in the corresponding distinction between the net productivities of those who produced the two.

In accord with the foregoing views, the Physiocrats added to their demand for industrial freedom another for an increased application of capital to land: by devoting more to agriculture, and by leaving industry free to obey the laws of nature, both the suffering of the people and the deplor-

<sup>1</sup> This does not mean that their physics was wrong and that they violated the principle of conservation of matter. Some cruder utterances might imply this, but their real fault lay in denying a surplus to manufactures and commerce. This error is based on faulty psychology rather than bad physics.

able condition of the public finances might be relieved. Thus the nation would cease to consume its capital unproductively.

3. *Value*.—With such a basis for their economics, it is not strange that the concept of value played but a little part in the Physiocratic system. Their attention, after all, was largely addressed to production: though Turgot, for example, treats wages and interest to some extent as shares in distribution, it is, on the whole, rather as costs to the producer that they are regarded. Taxation makes a possible exception to these statements. This, coupled with their peculiar ideas about productivity, made distribution mean a circulation and division of products rather than a sharing of values. Moreover, the problem of labor *vs.* capital, and all the complexities of distribution in a freer and more advanced industrial régime, were rudimentary or absent.

Enough was written, however, to enable us to understand fairly well their idea of value and to draw some conclusions as to how they thought value determined. On the whole, the Physiocrats did not regard value as inherent in things; and they recognized the difference between utility and value, —as others had done before them. Goods or utilities (*biens*) were distinguished from wealth (*richesses*),<sup>1</sup> and value in use (*usuelle*) was differentiated from value in exchange (*vénale*). "Price," however, does not appear to have been kept distinct from the concept of "value," the two ideas being treated as one: "what is called value is the price."<sup>2</sup> Wealth, they defined as possessing exchange value.<sup>3</sup> Accordingly, the Physiocrats tended to exaggerate the importance of exchange value, not bothering their heads about intangible "personal worths," and gliding over the complications arising from different subjective values. Certainly they did not go deeply into the forces determining exchange values. Goods exchanged were considered of

<sup>1</sup> Quesnay, Art. on *Hommes*, p. 42.

<sup>2</sup> Quesnay, Art. on *Impôt*, p. 58.

<sup>3</sup> Mirabeau, *Philos. Rurale*, Ch. xxi; *Œuvres de Quesnay*, Oncken ed., p. 353.

equal value, each one being the measure of the value of the other. Mirabeau wrote: "*le prix fait tout*."<sup>1</sup>

The way in which the Physiocrats thought exchange value, or price, determined, is not so clear. In general, their "value" was a market ratio of exchange, and might far exceed cost of production. Quesnay and the leading Physiocrats recognized a "*prix fondamental*," which they apparently regarded as established by competition and based on average expense of production, but did not sufficiently explain. He and his followers were more interested in the fluctuations of the "*prix courant*" (market price). This, they said, depended upon the "rarity or abundance of production, or the more or less competition of sellers and buyers,"<sup>2</sup> a demand-and-supply theory. Quesnay said that the value of exchangeable goods depends, not upon the labor expended to obtain them, but upon the extent of the market (*consommation*) and the number of those who desire it. At the same time, traces of an idea of a natural price, toward which competition tends to draw current prices, may be found. How this natural price level is determined, however, was not satisfactorily explained.

By Le Trosne<sup>3</sup> the general estimation or judgment is emphasized, and prices are fixed by competition which expresses it. This general or common estimation is the result of the coöperation of several factors, among which are the utility generally attributed to a good, the average indispensable costs, demand relative to purchasing power, and available supply.

Turgot, in an incomplete essay, *Valeurs et Monnaies*, states that an isolated individual values goods according to their utility, but in cases of equal utility he assigns different values according to the effort required to obtain them. In society, however, the valuations of the parties to an exchange may differ. Here the price will lie between the valuations

<sup>1</sup> *Philos. Rurale*, Chap. XII.

<sup>2</sup> *Œuvres de Quesnay*, p. 388.

<sup>3</sup> *De l'intérêt social* (1777); Daire, *Physiocrates*, pp. 890 ff.

of buyer and seller; and, with free competition, each gets a surplus.<sup>1</sup>

The logical analysis suggested by their ideas would be this: the value of a good is based upon its usefulness (utility); a manufactured article consists of two parts, one the original material, the other the energy expended in transporting and working it up; the value of the former, being in part the gift of nature, is determined by the ratio of its supply to the demand for it, while to this value must be added the subsistence of those who worked the article up into the finished form and marketed it.<sup>2</sup> The Physiocrats' whole philosophy of wealth made a recognition of the importance of utility essential, and its essentiality was clearly stated. It is obvious that their surplus, the *produit net*, could not have its value determined by cost. It was the gift of nature and a surplus above cost.

As productivity was confined to the yielding of raw materials, value and productivity could not be coördinated on any basis of cost of production. It might have been held that natural value was conditioned by the amount of material contained, but this would not have explained the value of *richesses stériles*, the products of manufacture. Utility was common to all, but one part of the nation's sum of exchange values, or wealth, was effected without cost; another, only partly through cost. Half consciously, perhaps, this difficulty was passed over by virtually limiting the discussion to market values alone, demand and supply being left with little analysis.

Thus it does not seem possible to say that the Physiocrats regarded value as determined by cost.<sup>3</sup> They recognized

<sup>1</sup> This implies a conflict with the Physiocratic idea of a single net product and sterility of all but agriculture. See Kaulla, *Entwicklung der Modernen Werththeorien*, p. 127.

<sup>2</sup> A source of confusion in the Physiocratic thought about value, and in our understanding of their thought, is their distinction between the products of agriculture and those of manufacture and trade. Much of their fragmentary discussion of exchange value concerns manufactured articles and covers only the addition in value made by working up raw materials.

<sup>3</sup> Sewall, above cited, and Davenport, *Value and Distribution* (p. 107), to the contrary.

that price must cover necessary costs, but this is far from making a "cost theory" of value. They emphasized the annual production as a factor, but this was because it limited the ability to purchase and hence the *demand* for goods.

4. *Social Classes and Scheme of Distribution; the Tableau Économique.*—The idea that extractive industries alone were "productive" led the Physiocrats to classify men into three groups: (1) the "productive" class or cultivators, who are engaged in extractive industry, chiefly agriculture; (2) the proprietors or landowners, sometimes called *disponible*, meaning independent or unoccupied, who were held to be partly productive; (3) the non-productive, called *la classe stérile*. This last group was considered to embrace merchants, artisans, and professional men. It was sometimes called the stipendiary class, for its members were regarded as being in a sense the wage-earners of the "productive" class; from which they received their revenue. The members of the proprietor class were looked upon as dependent upon the cultivators; and, a great part of their expenses being those of simple consumption, they were largely *stérile*. But by natural law they were charged with the administration and "reparation" of their patrimonies, and expenses incurred for the conservation and improvement of their properties were regarded as productive. The proprietor class, then, is not to be confounded with the purely sterile class.<sup>1</sup>

Perhaps the chief formal problem in theory to which the Physiocrats addressed themselves was the analysis of the normal distribution or circulation of the annual product of extractive industry. This was practically an elaborate analysis of the expenditures of the farming class; for, said they, the land is the ultimate source of all wealth, and the entire product must ultimately return to the hands of the productive class. It is important to remember that their object was to ascertain the natural laws whose observance would restore France to opulence.

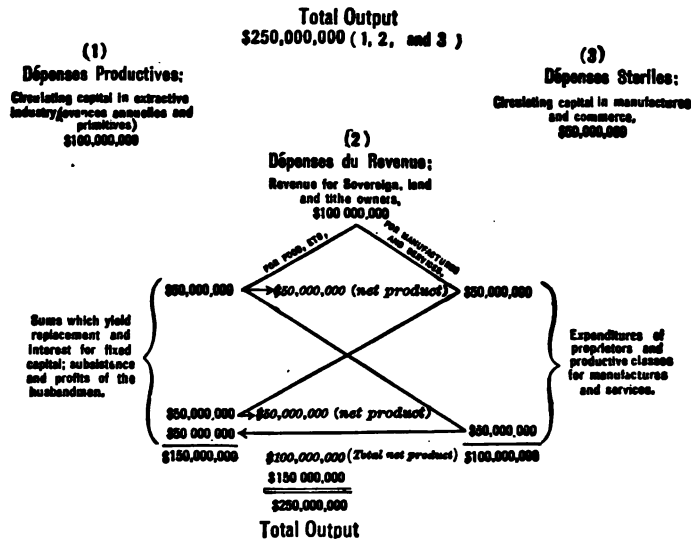
This problem they attacked as follows. Assuming that

<sup>1</sup> *Œuvres de Quesney*, Oudon ed., *Tableau*, p. 318.

agriculture yields returns of 100 per cent, and that productive and "non-productive" expenses are equal, they let the value of the year's harvest be put at some estimated amount, say \$250,000,000. Two classes are immediately interested in this amount: the landowners and the cultivators. According to the normal distribution, \$100,000,000 is at once withdrawn or retained in the immediate interest of the cultivators. This is to provide the annual expenses for circulating farm capital (*avances annuelles*), including seed, manure, wear and tear on machinery, wages, etc. From it, also, must ultimately be replaced to the farmer his original investment in seeds, machinery, etc. (*avances primitives*). The balance, or \$150,000,000, is marketed, \$50,000,000 going to the non-productive class for such things as tools and clothes, and the remaining \$100,000,000 going to the landlord. With a deduction for interest on his investment in improvements like fences, drains, and buildings (*avances foncières*) this is the surplus, or *produit net*. It is upon the circulation of this surplus (*dépenses du revenu*) that the prosperity of the nation's industry depends. It is distributed by the proprietors between cultivators and the artisans and merchants of class 3, each class receiving \$50,000,000. That is, the landlord is assumed to divide his expenses between manufactures, professional services, etc., on the one hand, and raw materials, like foodstuffs, on the other. Then the artisans and others of class 3 get their raw materials from class 1; and the farmers of class 1 get their tools and other manufactured products from class 3; with the net result that class 3 retains just enough to cover costs and replace capital, while class 1 shows a surplus for the next year.

One diagrammatic representation of this scheme was similar to the abridgment on the following page (see page 176).

The conclusion is that the manufacturing and trading class is dependent upon the replacement of agricultural capital; and if increased luxury leads to a diversion of part of the normal flow to class 1 away from it to class 3, agricul-



tural capital will be impaired and the succeeding *produit net* suffer.

5. *Wages and Interest; Population.*—As to wages, the Physiocrats, like other economic thinkers of precapitalistic days, made little contribution.<sup>1</sup> The laborer was supposed to get just enough to live on, and the question as to what constitutes enough to live on was not analyzed. Turgot argued that inasmuch as the employer will pay as little as possible and has his choice among many laborers, wages are in effect limited to what is necessary for the subsistence of the laborer,<sup>2</sup> including possibly some small luxuries and a little saving.<sup>3</sup> There is no general theory of population, nor any discussion of the relation of capital to wages. The assumption of a subsistence wage was in accord with the facts in France, and it was made the "natural" wage. The question of ethical responsibility was thus removed, and labor's "share" formed no problem.

<sup>1</sup> Cf. Picard, "Étude sur quelques Théories du Salaire au XVIII<sup>e</sup> Siècle," *Rev. d'Hist. des Doct. Écon.*, 1910, pp. 153 f.

<sup>2</sup> *Réflexions*, 56.

<sup>3</sup> *Cinquième lettre sur le commerce des grains.*

It will be observed that this idea of wages made the *produit net* a more definite and simple thing to the Physiocrats than it could have been, had a problem of wage determination existed in their minds; their surplus rested upon a subsistence basis.

Though they worked out no theory of population, one can read between the lines that they thought the *produit net* would raise up consumers for itself, and thus insure its own value, so to speak.<sup>1</sup>

This was thought to be advantageous. Thus Mirabeau in his *Bref Etat* says that the advantage of commerce is that it gives subsistence for men and the greatest number of men; improvement in machinery need not be feared, for there will always be more labor than laborers. Others saw the possibility of overpopulation, although not fearing it: "As it is in the physical order that men thus united in society multiply promptly, by a natural and necessary parallel to that multiplication they are reduced to lack the means of subsistence if they do not, at the same time, multiply those means of cultivation."<sup>2</sup> The multiplication of man was assumed to be a part of the natural order and was therefore regarded with optimism, a view which was possible in France at that time.

In the matter of capital and interest, more important contributions were made. The distinction between money and capital was drawn; the origin of the latter in saving was recognized; and the necessity for constant advances, consumption, and reproduction was stated.<sup>3</sup> Evidences are to be found of some realization of the productivity of capital and its significance.<sup>4</sup> In the case of agricultural capital, one writer points out that there must be a net profit or it would be otherwise employed.<sup>5</sup> It was also held that inter-

<sup>1</sup> Cf. e.g. Turgot, *Septième lettre sur le commerce des grains* (1770) (ed. Guillin), pp. 214 ff. Turgot comes near to a theory of population.

<sup>2</sup> Mercier de la Rivière, *L'ordre naturel*, p. 448.

<sup>3</sup> E.g. Turgot, *Réflexions sur la formation et la distribution des richesses*.

<sup>4</sup> *Ibid.*, 57-63.

<sup>5</sup> Mercier de la Rivière, *L'ordre naturel* (Daire's ed.), p. 459.



est is possible because land yields its *produit net*; and the higher the price of grain and the greater the *produit net*, the higher the interest rate.<sup>1</sup> Indeed, Quesnay, rejecting "supply and demand" and "risk" theories, argued that the rate of interest is subject to a natural law as is the revenue from land; as the income to be gained by its purchase is the law to the buyer and seller of land, the same law ought to govern the rate of interest.<sup>2</sup> Turgot, who was not formally a Physiocrat, suggested a productivity theory according to which interest is paid because the capitalist has the alternative of investing in land, but he did not develop the idea. But, after all, it must again be recalled that the Physiocrats were chiefly interested in production and exchange. Hence, interest was generally regarded not so much as a share in distribution as an expense of production—as an *avance* from the revenues of agriculture. As such, competition made it just enough to cover costs; its "natural" rate was as low as possible. The founder of the school appears to have generally regarded interest as a mere replacement fund, not as a net income.<sup>3</sup>

6. *The Single Tax*. — In strict consistency with their doctrine that only extractive industries produce a surplus or *produit net*, and in harmony with their desire to relieve the cultivator or farmer, as distinct from the landowner, the Physiocrats upheld a single tax on the net income from land. This was their *impôt unique*. The assumption being made that wages and profits are reduced to a minimum by competition, while land furnishes the only return above costs, they argued, as Locke and others before them, that all taxes must fall on land ultimately. Thus it seemed better, as a matter of economy, to collect directly from those who must pay in the end. Every time a tax is transferred, said they, it increases. If the tea in a merchant's store is taxed, he not only adds the amount of

<sup>1</sup> Oncken, "Quesnay," in Conrad's *Handwörterbuch*.

<sup>2</sup> Quesnay, *L'Intérêt de l'argent* (1776), Oncken's *Œuvres de Quesnay*, p. 401.

<sup>3</sup> *Analyse du Tableau Économique* (Daire's ed.), p. 62.

the tax to the price of his tea, but also enough more to pay interest for the money advanced in taxes, and to compensate for the annoyance and trouble involved. The one who buys the tea then transfers the tax to another with an addition, and so, continually increasing, it works on, down to the owners of the soil.

Though the single-tax idea was based upon an erroneous notion of productivity, and violated important principles of fiscal expediency, it rendered a great service.<sup>1</sup> Under the advocacy of it, the cumbersome, wasteful mass of taxes which prevailed was criticised; and the discussions to which it gave rise led to a better understanding of the principles of taxation.

**The Chief Physiocrats and their Writings.**— Though they were mostly differences of emphasis, rather than anything more fundamental,<sup>2</sup> some differences of opinion existed among the Physiocrats, the theory of interest and the degree of government interference being debated points. A few words are therefore required for the purpose of individualizing the more important of them.

It may be conducive to a clearer understanding of the relations of the several Physiocrats to one another, to distinguish Physiocracy in the broad sense from the Physiocrats in the narrower sense. In the broad sense, Physiocracy was the philosophy of the revolt against Colbertism and of the movement for *laissez faire*. In this sense it embraced a number of men who differed considerably in their economic views: Gournay, Quesnay, Turgot, and perhaps even Condorcet and Condillac. In the narrower sense, however, considered as a group of economic theorists (concerned with the *produit net* and the *ordre naturel*), Quesnay was the master, and the disciples were Mercier de la

<sup>1</sup> The modern single-tax idea of Henry George and agrarian socialists is, of course, quite different from the Physiocratic plan. The latter recognised the rights of the landowner and would have guaranteed property in land. Nor did they aim to seize an "unearned" income.

<sup>2</sup> These differences are emphasised by Oncken in his introduction to the *Œuvres de Quesnay*.

Rivière, Mirabeau, Le Trosne, Dupont de Nemours, and Baudeau. Gournay maintained entangling alliances with those Mercantilistically inclined (Morrelet, Butel-Dumont, and Forbonnais), and he did not accept the *produit net* idea. Turgot, while more in accord with Quesnay's economic theories, did not follow him in political absolutism, and was more historical in his point of view.

If the foregoing distinction be disregarded, and the Physiocrats be considered as a single group, it may be said that the chief representatives of the school were François Quesnay (1694–1774), and Anne Robert Jacques Turgot (1727–1781). There are others, like Jean Vincent de Gournay (1712–1759), Mirabeau, Mercier de la Rivière, Dupont de Nemours, Baudeau, and Le Trosne, who are important; but the two first named are the more original. Few, if any, ideas of fundamental importance for economic theory were added by the others.

It may be truly said that from the point of view of economic theory, Quesnay is the chief figure. He was the unquestioned leader of those "Économistes" who formed the school or sect. His chief writings were the following: an article on "Fermiers" (1756), one on "Grains" (1757) — both published in Diderot and D'Alembert's *Encyclopédie*; the *Tableau Économique*<sup>1</sup> (1753–1758); "Maximes générales du gouvernement économique d'un royaume agricole," published in Mirabeau's *Philosophie Rurale* (1763); and his *Droit Naturel* (1768). In the first two articles the basis for his system will be found. His ideas as to the distribution of wealth are stated and illustrated by tables in the famous *Tableau Économique*. Quesnay led in his emphasis of agriculture, demanding that it be brought to the highest perfection. The maxim "poor peasant, poor kingdom; poor kingdom, poor king" is generally attributed to him. He favored freedom of trade and industry to give agriculture the greatest chance to expand.

<sup>1</sup> See above, p. 174. This work was reproduced in facsimile for the British Economic Association, London, 1894.

Gournay, who cannot be said to have been a member of the strict school of Quesnay, was not, like Quesnay, the son of a farm-owner. He spent fifteen years engaged in trade at Cadiz, then traveled in England, Holland, and Germany, and finally settled down in 1751 as an intendant of commerce. He translated certain works of Sir Josiah Child and of Culpeper; but wrote little himself. His chief work was administrative and advisory to others. He lived in Turgot, whose *Éloge* upon the death of Gournay is an important source for the latter's ideas. These were, in brief, that government should be confined to restoring liberty to all branches of commerce and to encouraging competition, thus protecting production and lowering prices. He believed that manufacture and trade were productive. He stimulated interest in economic analysis and reforms by gathering a "school" around him. To Gournay is commonly attributed the famous saying *laissez faire, laissez passer*, and, whether or not he originated the whole maxim, he seems to have made it his own.<sup>1</sup>

Turgot, while keeping himself formally distinct from the sect of the Physiocrats, was in essential agreement with their main doctrines. He claimed Gournay for his master, and, while emphasizing their non-productivity, he leaned toward a greater recognition of the service of the non-"productive" classes. But he differed from both Quesnay and Gournay in some points.<sup>2</sup> He had a better understanding of the relation of saving to capital formation; he defended freedom to lend and borrow at interest; and he was opposed to the system of political autocracy which Quesnay favored. It was his fortune — first as intendant, then as finance minister to Louis XVI — to put in practice some Physiocratic principles. His best-known writings are: *Réflexions sur la formation et distribution des richesses* (1766, published 1769); a memorial *Sur les prêts d'argent* (1769); letters on *la liberté du commerce des grains* (1770). His letter to the

<sup>1</sup> See Schelle, *L'Économie Politique et les Économistes*, pp. 166 ff.

<sup>2</sup> See Oncken, *Gesch. d. National Ökonomie*, pp. 459 ff.

Abbé Cicé (1749) on the subject of paper money and coin was an early blow at Law's system, and shows a good understanding of the relation of money to price.

Turgot's *Réflexions* consists of a hundred paragraphs, the first seven of which attempt to prove that agriculture alone increases the wealth of the nation and that manufactures and trade depend upon it. In the last few paragraphs he concludes that land revenues are the only proper source for taxes. The remainder deals largely with money and capital.

There has been some difference of opinion as to the historical significance of these *Réflexions*. Cossa declares that the book deserves to be entered in red-letter, as the first scientific treatise on social economics.<sup>1</sup> On the other hand, Jevons and Higgs<sup>2</sup> would rather emphasize Cantillon's work in this connection. There can be little doubt as to the superiority of Turgot's work. But when we reflect that he had the shoulders of Cantillon, Hume, Gournay, and Quesnay to stand on, there may be some doubt as to which did the greater work, relatively. It may simply be suggested that, while Cantillon wrote a scientific essay, Turgot wrote a bigger and better one, just as, ten years later, Adam Smith surpassed Turgot. All three are now read as milestones in the history of economic thought. The question is to be decided in the light of obstacles overcome or of the amount of new truth given.

For the best concise statements of the Physiocratic doctrine one must turn to *L'ordre naturel et essentiel des sociétés politiques* (Paris, 1767) by Mercier de la Rivière; Abbé N. Baudeau's *Première introduction à la philosophie économique* (Paris, 1771); and Le Trosne's *De l'ordre social* (1777). The work of Mirabeau's called *Philosophie rurale ou économie générale et politique de l'agriculture* (1763) is also to be mentioned in this connection. Dupont de Nemours also wrote a brief but comprehensive work,

<sup>1</sup> *Introduction to Political Economy*, p. 264.

<sup>2</sup> *The Physiocrats*, p. 94.

*Physiocratie ou constitution naturelle du gouvernement le plus avantageux au genre humain* (1767).. It was from this title that the school received its name.

**Philosophy.**— Under the general outlines of Physiocratic Political Economy, the chief points in the philosophy underlying Physiocracy have been touched upon: Emphasis of the material, individualism, self-interest, natural order, and optimism. The discord among the elements in this list is apparent at a glance. How can one be a thoroughgoing materialist and at the same time be an optimist? How can a reliance upon self-interest go hand in hand with a belief in a divinely appointed natural order?

In order to understand this curious situation, it is necessary to know something of the philosophies which prevailed in France during the eighteenth century. It is to be remembered that economists were not specialists in those days, but covered broad fields in their speculations. Such names as Grotius, Pufendorf, Hobbes, Locke, Hume, and Montesquieu had appeared in the list of those who contributed to economic thought, and the Physiocrats were themselves closely allied with a school of philosophers known as the Encyclopedists. The connection between philosophy and economics was much more direct, and was given much more recognition than is now the case. Economics was just being developed, and was a branch of "moral philosophy."

John Locke (1632-1704) was the father of the philosophy of the Physiocrats, their rationalism and emphasis of nature tracing largely to him. Hardly second to Locke, however, was the influence of the French philosopher René Descartes (1596-1650). Now both these thinkers were dualists, *i.e.*, they did not synthesize mind (*ideas*) and matter. They were both unfinal. Locke tended toward materialism in making knowledge chiefly dependent upon sensations received by a passive mind from its environment; but he also admitted "reflection" by which the mind as an active force gains knowledge of *ideas*. Descartes sought to found knowledge on the basis of self-consciousness considering

innate ideas as eternal verities; but he also taught that extension is an ultimate reality. In the light of innate ideas, the mind interprets data which are furnished to it by the senses. Thus Descartes, although a dualist, tended toward idealism. He believed that God created the world and that a divinely appointed order exists which is not arbitrary, but natural.

While in part adopting the idea of a divinely appointed natural order, however, the Physiocrats tended toward the materialism which predominated in Locke's thought. One factor in the situation was the thought of the philosopher, Helvetius (1715-1771), who was closely associated with the Physiocrats, and who was a materialist of the Hobbes-Locke-Hume type. All ideas, he believed, are impressions from without; and consequently differences among men are circumstantial, depending upon education. Self-interest actuates men, and pleasure and pain are the motivating forces. Condillac also had similar ideas.

On the other hand the influence of the French philosopher Malebranche (1638-1715) served to keep alive an idealistic element in Physiocratic thought, offsetting, as it were, the influence of Helvetius. Malebranche was a priest who became a disciple of Descartes and later sought to explain the world of mind or spirit, and to bridge the gap between mind and matter, which his master had left. He found the cause of all phenomena in God and made both matter and mind exist in God. Thoughts and bodily acts may occasion one another, but the cause of all lies in the divine mind.

It will now be clear why so many fundamental inconsistencies are to be found in Physiocratic thought; they were the children of an unfinal, dualistic philosophy. At the same time that they were in many respects rationalists, engaged in tearing down outworn dogmas and putting things to the test of reason, they were also making a metaphysical idea of "natural" order, instituted by Divinity, the corner stone of their system. At the same time that they were arguing for the free play of self-interest, they were upholding the need of strong, centralized government which would

overcome the difficulties arising from natural inequalities among men and differences in desirability of occupations. The dual series of inharmonious ideas may be indicated as follows:

**MATERIALISM**

"The institution of society is the result of physical necessity," etc.

**RATIONALISM**

Reason proves that only by the laws of the physical order are physical causes bound to their results.

**HEDONISM**

"To obtain the maximum augmentation of enjoyment by the maximum diminution of expense, is the perfection of economic conduct."

**INDIVIDUALISM**

Self-interest will lead to co-operation.

**LAISSEZ-FAIRE****WEALTH ALL-IMPORTANT**

Market value is the only rule by which to judge the advantage which the state derives from any given kind of production.

**IDEALISM**

By contemplating "that which is naturally in us" we are convinced that "the union of men in society is in the general plan of creation."

**RELIGIOUS TELEOLOGY**

"Natural order"; "divine purpose." Multiplication of human species is manifestly the intention of the Creator.

**REASON AND AFFECTIONS IMPORTANT**

The natural order makes itself known by the aid of the sole light of reason. Man is susceptible to compassion, pity, amity, benevolence, glory, emulation, etc., and is, therefore, clearly destined to live in society.

**MONARCHICAL GOVERNMENT**

Government is needed to maintain property rights and carry out the order of nature.

**PROTECTION TO AGRICULTURE****WELL-BEING NOT WEALTH**

Well-being lies in *abundance* of enjoyable objects.

The Physiocrats, however, were too wise as philosophers to let all this dualism pass without some synthesis. In the field of metaphysics, some of them would class with Malebranche, in that they found in God the bridge between ideas



and matter, and their thought was accordingly deeply tinged with idealism. The *ordre physique* and the *ordre naturel* were regarded by these as interrelated, in that the two were instituted by the Creator. The key, however, to the synthesis which more or less consciously was adopted by the leading Physiocrats — those in whom materialistic tendencies predominated — is undoubtedly to be found in the place which they assigned to *reason*. Reason on the one hand can modify the material environment to suit ideas, and on the other can adjust ideas (instincts and emotions) to meet environmental conditions, in this way bringing mind (ideas) and matter together. The *ordre naturel* was supposed to have its authority solely in its obviousness to the human reason and in "the irresistible force with which it dominates and subjects our wills." Self-interest was reconciled with government by the assumption that self-interest would be intelligent. All individuals were assumed to be dependent for their welfare upon the quantity of the *produit net*, and therefore each would seek so to act that the *produit net* would be increased. Mercier expresses the general idea thus: "That which is called the state is a political body composed of different parts united by a common interest, which does not permit them to detach themselves from it without their suffering injury." (*L'ordre naturel*, 369.) In short, the Physiocrats in the last analysis relied upon an intelligent appreciation by each individual of his relations with and dependence upon his fellows, for the practicability of their theories. This reliance was generally a mere tacit assumption; but it was there.

The foregoing statement brings out clearly the highly abstract character of the Physiocratic system of economic thought. As a system it did not fit the fact that ignorance and selfishness are widespread, and therefore it could not succeed as the basis for a practical economy.

**English Followers.**<sup>1</sup> — Contrary to the common opinion,

<sup>1</sup> See Seligman, "Some Neglected British Economists," *Econ. Jr.*, XIII, 336 ff. (1903); Higgs, *The Physiocrats*, p. 137. For the influence of Physiocratic thought in other countries see Cossa, *Introduction to Political Economy*, p. 272.

the Physiocrats were not without some following in English thought, though it was a weak one. In America Benjamin Franklin was acquainted with the Physiocrats and had some notions concerning productivity similar to theirs. And in England, in 1797, "some false doctrines of Dr. Adam Smith and others" were attacked on Physiocratic grounds by an anonymous writer. Prosperity was made by this writer to depend upon high rents, the "net product" of the *Économistes*. Another anonymous work, *Sketches on Political Economy . . . with an Exposition of some of the leading Tenets of the Economists* (1809), argued that capital cannot reproduce with an increase, — that, being itself a result, it cannot cause that from which it results. This, land alone could do.

The little book by Brydges on *Population and Riches* (1819) also reminds one of the Physiocrats, as he states that the basis of all riches is the produce of nature, that a man's labor in agriculture can produce a surplus above his subsistence, which surplus is distributed, first among manufacturers, secondly among non-producers. He carries the ideas of Smith and the Physiocrats on non-productive classes to the extreme. The animus of the work appears to be a defense of the landed interests in England.<sup>1</sup>

William Spence may also be mentioned here as one who upheld Physiocratic theories.<sup>2</sup> The Industrial Revolution, however, had made such views as to the relative position of land and capital pretty clearly untenable in England.

**Critics.** — Among the chief critics of the Physiocrats, Galiani and Condillac may be especially mentioned.<sup>3</sup> The Italian, Galiani, published a book on money in 1750, and his better-known *Dialogues sur le commerce des blés* in 1770.

<sup>1</sup> It is interesting to note that he drew largely upon Sismondi.

<sup>2</sup> See, e.g., his *Tracts on Political Economy*, 1822.

<sup>3</sup> The American, Hamilton (see below, p. 281), the Italians, Beccaria and Verri; the Germans, Möser, Büsch, and Justi; and the French writers, Voltaire (*L'homme aux quarante écus*), Forbonnais, Mably, Necker, and Herrenschwand, may also be classed as critics. Herrenschwand was a Swiss physician who may be regarded as a predecessor of Malthus. He wrote a *Discours fondamental sur la population* (1786). For others see Roscher's *Geschichte der Nat.-Oek. in Deutschland*.

He was an opportunist, opposing the idea of the natural order. In his work on *Le commerce et le gouvernement* (1776), Condillac, while agreeing with the Physiocrats in some respects, refuted the idea that manufactures are sterile, and contributed to the theory of value.<sup>1</sup>

**The Practical Influence of Physiocracy.**—The system of the Physiocrats found admirers among sovereigns of various states. Those who are known to have been believers in it to a greater or less extent are Catherine II of Russia, Joseph II of Austria, his brother Leopold, Archduke of Tuscany, and Carl Friedrich, Margrave of Baden. Joseph II and Leopold do not appear to have been very earnest followers of the Physiocrats. They made some attempts, however, to carry out their principles, except in so far as they related to free trade. Carl Friedrich, the Margrave of Baden, was, on the contrary, a whole-souled believer in the Physiocratic system. He even wrote a work advocating it, entitled *Abrégé des principes d'Économie politique*. (A Compendium of the Principles of Political Economy), published in 1775. He made an attempt to introduce the system practically in three villages in Baden; namely Dietlingen, Theningen, and Balingen. It was impossible to carry out the attempt. It must necessarily have failed, even supposing the teachings of the Physiocrats substantially correct. An instantaneous change from one system of public economy to another and quite different one can hardly be accomplished without serious harm. Again, the matter was made worse by endeavoring to maintain both systems side by side in the same land. Besides all this, the plan was badly executed. The experiment was given up in two of the villages, Theningen and Balingen, in 1776; in Dietlingen it was continued until 1792.<sup>2</sup>

<sup>1</sup> See below, p. 528.

<sup>2</sup> Further information about this experiment will be found in Roscher's *Geschichte der Nat.-Oek. in Deutschland*, § 110; and in an essay by A. Emminghaus, published in the *Jahrbücher für National Ökonomie und Statistik*, Vol. XIX (1872). The title is "The Physiocratic Experiments and Connections of Carl Friedrich of Baden." Also Knies, *Carl Friedrichs von Baden brieflicher Verkehr mit Mirabeau und Du Pont*

In France their chief influence was through Turgot. As intendant of Limoges (1761-1774) he was active and successful in tax reforms, the abolition of feudal restrictions, and education. During his few years' service as minister of finance, he attempted to follow the same principles of freedom and equality, but with less complete success. Trade in wine and grain between the different divisions of the state was freed from restrictions. Foreign commerce, particularly with the French colonies, was encouraged. In all, Turgot removed twenty-three different burdens which oppressed people, commerce, manufactures, and agriculture. With what unjust implication, then, does Kautz say that "he was able to introduce only a few improvements but to go no further."<sup>1</sup> He struggled valiantly against the interested hostility of clergy and nobility, and accomplished much, but was overcome before the fruits of his reforms were realized.

**Critical Estimation and Summary.** — Perhaps the most notable single characteristic of the Physiocratic economics is its negativism. As already remarked, Physiocracy might be defined, with some measure of truth, as the revolt of the French against Mercantilism. Its weakness and its strength are alike the results of reaction. Thus wealth in the form of money was emphasized by the Mercantilists, while the Physiocrats placed marked emphasis upon "real" wealth in the shape of raw produce. A large foreign trade with a favorable balance was the summum bonum of the Mercantilist; the typical Physiocrat, Turgot being rather an exception, regarded foreign trade with indifference or as a necessary evil, and assailed the balance-of-trade idea. And so the one favored imports of raw material; the other of manufactures. Whereas the statesman of the Mercantilist school sought to secure these ends by continual regulation, freedom of trade and industry was the great desideratum of Physiocracy. In a word, the Physiocrats were in revolt against art, artificial wealth, and political artifices for wealth-get-

<sup>1</sup> *Die geschichtliche Entwicklung der Nat.-Oek.* (Wien, 1860), p. 357.

ting; hence their ideas of nature and natural wealth and natural liberty.

On all these points the Physiocrats carried their reaction, to a greater or less extent, too far. Commerce and manufactures are and were important, and are equally productive, in the true sense of the word, with agriculture. Absolute freedom of industry and trade is as unattainable in theory as inexpedient in practice. In short, there is one fundamental error in their economics, emphasized by two more errors in their philosophy. Their economics was vitiated by the absence of a correct notion of production: they lacked the idea of production as utility creation. This led them, for example, to deny "productivity" to manufacture, although it creates form utility. Then, their individualistic philosophy, with its negative basis, overlooked the necessity for social action. And finally, their nature philosophy made them absolutists attempting to apply their ideas regardless of time or place.

But the important contributions they rendered must not be forgotten. For one thing, they did a valuable work by destruction. They exposed old fallacies and departed from the errors of their predecessors. The world makes progress through the realm of thought like a ship which tacks to the windward, swinging now to one side, then to the other, of the straight course, — a series of actions and reactions. The Physiocrats threw the tiller over and sailed away on a new tack, and one necessary to progress. Their more positive contributions may be summed up as follows: —

I. They put economics on a scientific basis by applying scientific methods, and by separating it from other sciences, notably jurisprudence (Turgot).

II. Their emphasis of the surplus or net product was notable, especially in connection with the later development of the rent concept.

III. Their analysis of capital (Turgot), though rudimentary, pointed toward the true nature of that factor.

IV. They made important contributions to the theory of taxation.

V. Their thought shows much progress toward a true social point of view, in that they saw, at least in an abstract way, the interdependence of individuals, and centered attention on producing and circulating the necessities of life.

VI. Their emphasis of land was influential, for weal or woe, in bringing about the later threefold classification of the factors of production.

The Physiocratic system may be viewed as having a mission to perform in the development of the economic thought of the world, and, so viewed, it must be confessed that its very errors adapted it so much the better to perform its mission. The bold declaration that the only office of government is to protect life, liberty, and property, and the easily repeated formula, *laissez faire, laissez passer*, were destined to accomplish much. Any man could appreciate the doctrine that his private business was no concern of government. It is natural that the crisp, sweeping exaggerations of the Physiocratic system should have been very effective.

It was well, too, that the importance of agriculture, while it is not the sole source of wealth, should be emphasized. Nor is it so surprising as it might at first appear that the Physiocrats regarded the rent of land as the only true *produit net*. At the time when Quesnay wrote, it was the chief source whence additions were made to the national resources. It is only within a comparatively short time that the profits of capital have taken the most prominent position in the formation of new capital. "During the greater part of the world's history the rent of land has been the chief source of saving. A good deal is saved from rent in England now, and in the rest of the world probably more is saved from it than from profits on capital."<sup>1</sup> There is,

<sup>1</sup> *The Economics of Industry*, Alfred Marshall and Mary Paley Marshall (London, 1879), p. 39.

moreover, an actual difference between an income derived from land rents and one derived from any other species of property — a difference upon which Ricardo founded his theory of rent, and Mill his doctrine of land taxation.

But reflection showed that it was quite misleading to designate those classes not in some way connected with agriculture as barren (*stérile*) or non-productive. It came to be perceived that there is a *produit net*, a surplus, wherever there is a saving, and that, if, in the long run under competitive conditions, they save a part of their income, merchants and artisans add as truly to the wealth of the country as the agricultural laborer; for they must have rendered an equivalent for their income, that is to say, have produced it. A system was needed which should include and elucidate manufacturers and commerce. The one-sidedness of the Physiocrats had to give way and to make room for the broader and more catholic political economy of Adam Smith.

## CHAPTER X

ADAM SMITH WITH HIS IMMEDIATE PREDECESSORS  
AND THE REVOLUTION IN INDUSTRY

THE Scotchman, Adam Smith, born in the year 1723 at the village of Kirkcaldy, published in 1776 the book commonly known as *The Wealth of Nations*.<sup>1</sup> By this book he won a fame greater than that of any other writer on political economy or allied subjects. Abundantly criticized and with its originality not unassailed, his work still stands as truly epoch-making in the evolution of economic thought, while its maker is called the Father of Political Economy.

**Immediate Predecessors of Adam Smith.**— Though so truly epoch-making, Adam Smith, as is generally the case, built upon the work of his predecessors. Nor can one overlook the forerunners in a study of the master's achievement. Adam Smith was acquainted with the writings of the Mercantilists, the philosophers of the seventeenth and eighteenth centuries, and the Physiocrats; and he stood upon their shoulders. The names of Petty, North, Child, and Steuart, and those of Locke, Berkeley, Mandeville, Hutcheson, Hume, Tucker, and Ferguson, must ever be remembered in this connection. Smith also refers to Cantillon; and a work by Harris, a follower of Cantillon, was known to him.

<sup>1</sup> On Adam Smith, his life and work, see: Cannan (editor), *Smith's Lectures on Justice, Police, Revenue, and Arms*, 1896; Feilbogen, *Smith und Turgot*; Hasbach, *Die allgemeinen philosophischen Grundlagen der von F. Quesnay und Adam Smith begründeten politischen Oekonomie*, 1890, and Hasbach, *Untersuchen über Adam Smith*, 1891; Oncken, *Adam Smith und Im. Kant*; Rae, *Life of Adam Smith*; Small, *Adam Smith and Sociology*, 1907; Zeyss, *Adam Smith und der Eigennutz*. The chapters or essays on Smith in Cannan's *Theories of Production and Distribution*, Leslie's *Essays in Moral and Political Philosophy*, Bagehot's *Biographical Studies*, and Bonar's *Philosophy and Political Economy* are valuable.



Dating from the eighteenth century, too, there are many books and pamphlets, often anonymous, which relate to economic subjects; but inasmuch as there is no evidence that they exerted any influence on the course of economic thought, it does not seem expedient to discuss them here. While remembering Smith's great debt to the Physiocrats, — and theirs to the Scotch and English writers, — the continuity in England's economic thought should be emphasized; and Hutcheson, Hume, Tucker, and Ferguson may be named as the chief of his immediate predecessors. These men come near to forming one school with Smith as their master.

It is highly probable that Smith's emphasis of self-interest and accompanying tendencies were stimulated, if not originated, by the spirit of Mandeville's celebrated *Fable of the Bees*. Though he at first expressed himself enigmatically, it appears to have been Mandeville's idea that on the multiplicity of wants "depended all those mutual services which the individual members of a society pay to each other: and that consequently, the greater variety there was of wants, the larger number of individuals might find their private interest in laboring for the good of others, and united together, compose one body."<sup>1</sup> Mandeville, too, clearly expressed the idea of division of labor, using the production of watches and clocks as an illustration, and he was perhaps the first to use the words "divided" and "division" in this connection.<sup>2</sup>

But Hutcheson exerted a deeper and more comprehensive influence upon Smith. Hutcheson was a teacher of Smith at Glasgow (1737-1740) and Smith expressed indebtedness to him. His *System of Moral Philosophy* shows that, while he had some Mercantilistic ideas concerning balance of trade, government regulation, and population, he foreshadowed his pupil's work at several points. For one thing he

<sup>1</sup> Edition of 1724, p. 465. First edition about 1705; second, enlarged, in 1714.

<sup>2</sup> Edition of 1729, part ii, p. 335. See Cannan's introduction to his edition of Adam Smith and note on page 5 of Vol. I.

handed down to Smith many views of Pufendorf, Grotius, and Locke; gave him, or at least strengthened, his optimistic nature philosophy; and it has even been argued that the arrangement of the *Wealth of Nations* was affected by Hutcheson's lectures.<sup>1</sup> Hutcheson's thought was utilitarian in trend, and he proposed the greatest happiness of the greatest number as a standard. Furthermore Smith may well have gotten from him certain purely economic ideas, notably on division of labor, value, money, and taxation. Thus Hutcheson distinguished utility and value, saying that "the natural ground of all value or price is some sort of use," that wealth is differentiated from utility by labor, and that limitation of supply makes a scarcity value.<sup>2</sup> Hutcheson justified interest on the ground that money might be invested in things "naturally productive."

Doubtless Hume<sup>3</sup> exercised the greatest influence on the general philosophy of Smith, as well as on his economic opinions. During his stay at Glasgow, Smith made an abstract of Hume's *Treatise of Human Nature* which pleased the older man and was the beginning of a lasting friendship. Hume was an essayist, writing in a philosophical spirit, but working out no complete economic system. If he had written a systematic treatise in 1752, when his essays appeared, the *Wealth of Nations* in all probability would not have occupied the unique position it now holds. The chief characteristics of Hume's economic thought are the prominence given to labor, the attention given to changes or transitions, evidences of historical spirit, and the interrelation of economic and other social facts and forces. Though he shows traces of Mercantilism he had a good understanding of foreign trade. "Not only as a man but as a British subject I pray for the flourishing commerce of Germany, Spain, Italy and even France itself." Everything that is useful to man springs from the ground; but

<sup>1</sup> See W. R. Scott's *Francis Hutcheson*.

<sup>2</sup> *System*, Vol. II, pp. 53 ff.

<sup>3</sup> Klemme, *Wirtschaftliche Anschauungen David Humes* (330.9).

artisans are necessary to work up most things and in "the stock of labor . . . consists all real power and riches."<sup>1</sup> Hume holds that everything in the world is purchased by labor, and that our passions are the only cause of labor.<sup>2</sup> Money is nothing but the representative of labor and commodities and for any one country its greater or less abundance is immaterial; but the increase in the supply of money may benefit industry during the interval between acquisition and resulting rise in prices. Interest depends on the profits of industry and the demand and supply of loans.<sup>3</sup>

Josiah Tucker (1712-1799)<sup>4</sup> was dean of Gloucester. Between 1750 and 1776 he wrote several essays on commerce and taxation,<sup>5</sup> and one of his writings was translated by Turgot.<sup>6</sup> He too laid emphasis on the significance of labor. He believed in the advantages of a large population and favored a tax on celibacy, and has been called the true forerunner of the "Manchester School."<sup>7</sup> Tucker's free trade policy was based on the idea of a harmony of interests. Self-interest was made by him the chief motive, and this, he thought, if given free play, would coincide with public interest in most cases.

It may be said that Hume and Tucker inaugurated cosmopolitanism in commercial policy.

Adam Ferguson (1723-1818) did not separate economics from politics, but in his lectures and writings,<sup>8</sup> dealt with economic topics, and, as a contemporary and friend of Smith's, he must have had some influence. His maxims of taxation, though not the same, may have influenced Smith's famous canons. His treatment was ethical. He had some idea of the principle of relativity.

<sup>1</sup> *Of Money.*

<sup>2</sup> *Of Commerce.*

<sup>3</sup> *Of Interest.*

<sup>4</sup> See W. E. Clark, *Josiah Tucker*, Columbia University Studies XIX, No. 1.

<sup>5</sup> *Brief Essay on the Advantages and Disadvantages which respectively attend France and England with regard to Trade* (1748); *Elements of Commerce* (1752); and others.

<sup>6</sup> *The Expediency of a Law for the Naturalization of Foreign Protestants*, translated as *Questions importantes sur le Commerce*, 1755.

<sup>7</sup> For Manchester School, see below, p. 221.

<sup>8</sup> *Essay on the History of Civil Society* (1767); *Institutes of Moral Philosophy* (1769).

On the point of the theory of value and utility, Harris in his work *On Coins* (1757) was influential in shaping Smith's thought; for he wrote: "Things in general are valued not according to their real uses in supplying the necessities of men; but rather in proportion to the land, labor, and skill that are requisite to produce them;" and he contrasted water and diamonds to illustrate the point (p. 5).

These men, then, broke the way for the development of political economy as a science, and more or less markedly taught that labor is the source of wealth and advocated industrial or "natural" liberty.

**Smith's Life and Relations with the Physiocrats.**<sup>1</sup> — At the age of fourteen Smith went to Glasgow, where, as already indicated, the philosopher Hutcheson profoundly affected him. Hutcheson was lecturing systematically on economic subjects under the branch of his philosophy which he called "Natural Jurisprudence." Smith then went to Oxford on a scholarship; where he studied the classics. Between 1748 and 1751 he lectured on rhetoric and belles-lettres at Edinburgh; after which he became professor at Glasgow, — first of logic, then of moral philosophy. "In the last of these lectures he examined those political regulations which are founded, not upon the principle of *justice*, but that of *expediency*, and which are calculated to increase the riches, the power, and the property of a state. Under this view he considered the political institutions relating to commerce, to finances, to ecclesiastical and military establishments."<sup>2</sup> We know that in 1754 while at Glasgow he discussed the effects of a bounty on the export of corn, talking much with merchants and convincing many of the advantage of free trade.

In 1759 his *Theory of Moral Sentiments* appeared.

Five years later we find Smith traveling in Switzerland and France. He met Diderot, D'Alembert, Quesnay, Tur-

<sup>1</sup> Rae, *Life of Adam Smith*.

<sup>2</sup> Words of Millar, a student of Smith's, in Stewart's *Works*, Vol. X, p. 12.

got, and others. Conversing often with Turgot on economic topics, it is natural that both men were influenced. Turgot was engaged on his *Réflexions* and Smith on his *Wealth of Nations*. Say's opinion that Turgot owes much of his philosophy, Smith much of his economics, to this intercourse, seems reasonable.<sup>1</sup> It seems more reasonable, however, to minimize the contributions made by these men to each other's development and to consider them both as affected by common environmental forces.

"The three same fundamental conceptions," says Cliffe Leslie,<sup>2</sup> "derived from the three same sources—from Græco-Roman speculation, from Christian theology, and from the revolt of the age against arbitrary interference with private industry and unequal imposts on the fruits of labor—formed the groundwork of the political economy of Adam Smith and the Physiocrats." These "fundamental conceptions" were, respectively, that of natural rights, that of a beneficent Providence, and lastly the idea of *laissez faire* derived from the reaction against government interference. None of them can be said to be the invention or the property of any man or school. In any case all of them can be found in the writings of Hutcheson, Hume, and Tucker.

From among these fundamentals of Leslie's, a fourth might be distinguished, namely, the principle of self-interest as the fundamental force in society. In this connection the appearance of Helvetius' work *de l'Esprit* (1758) deserves comment.<sup>3</sup> His teaching that self-love is life and power; unselfish benevolence, nothing, produced a wonderful sensation in France and elsewhere. It may have been instrumental in causing Smith to shift from sympathy to self-interest as the chief motive in life.<sup>4</sup> His predecessors in England, however, and especially Mandeville, may be regarded as probably having the most immediate influence here.

<sup>1</sup> Leon Say, *Turgot*, p. 33.

<sup>2</sup> "The Political Economy of Adam Smith," *Fortnightly Review*, 1870. Republished in his *Essays*.

<sup>3</sup> Cf. Kuno Fischer, *Francis Bacon u. Seine Nachfolger*, p. 687 and above, p. 184.

<sup>4</sup> Knies, *Die politische Ökonomie vom Standpunkt der geschichtlichen Methode*, p. 150.

With the continental ferment of a sensualistic nature philosophy working upon the similar ideas of his own and his predecessors, Adam Smith returned to England in 1766, and ten years later published his book *The Wealth of Nations*.

Never was time riper for a comprehensive book! Everywhere the old order was shaken; everywhere new ground had been broken; but nowhere had the crop appeared. Tracts and essays had been published in England and *tableaux* and tomes in France; but all lacked either system or comprehensiveness, or were marred by Mercantilistic taints or reactionary errors. Revolutions in industry, in philosophy, in politics, were in the air. What wonder that men hailed with extravagant praise an analysis and explanation of the new order!

"An inquiry into the Nature and Causes of the Wealth of Nations" was the full title of the book; and this title was considered by Smith to be an adequate definition of the scope of political economy.<sup>1</sup> So far as the book has a plan it appears to be as follows: beginning with the importance of labor as the source of the annual wealth of a nation, Smith discusses division of labor as the means for increasing the productiveness of labor and hence the nation's wealth. Division of labor necessitates exchange, and this is the next topic. This leads up to money as the medium of exchange, and to value. The discussion of price follows, and then the components of price: wages, profits, and rent — according to Smith. Finally the criticism of Mercantilism and Physiocracy follows; and the last book deals with public finance.

In his conception of the "annual wealth" and "annual labor" of a nation Smith was undoubtedly influenced by the Physiocrats.

**The Importance of Labor and Division of Labor.** — The Physiocrats had made land or the bounty of nature the center of their system. In the sense in which they used

<sup>1</sup> See Introduction to Bk. IV (Cannan's ed., p. 395).

the word, land alone was "productive." Certain ones among the Mercantilists,<sup>1</sup> however, spoke of labor as the active principle or father of wealth, though attaching most importance to mercantile and maritime pursuits. Adam Smith makes much of labor. The first words in his book are, "The annual labor of every nation is the fund which originally supplies it with all the necessities and conveniences of life;" and, as will be seen later, he makes labor both cause and measure of value.

It must not be inferred that Smith means all human exertion which adds utility; he limits his emphasis of labor to "productive labor." This reminds one of Physiocratic distinctions. But there is this difference: the Physiocrats made productivity equal the creation of a surplus over costs;<sup>2</sup> by Smith, productivity was extended to include any addition to exchange value, the produce of labor being "the value which it adds to the materials upon which it is bestowed."<sup>3</sup> But exchange value he confined to vendible commodities. Thus Smith regarded menial servants, public officials, and professional men as unproductive; their work perished on the instant of production.<sup>4</sup> This is very like Child's opinion.<sup>5</sup>

Smith's treatment of the advantages of division of labor has long been deemed a classic. He did not originate the idea, for traces of it have been found from the Greeks on; but he so enriched it that ever since the appearance of the *Wealth of Nations* it has had a new importance in economics. Smith makes an innate "propensity to truck and barter" the cause of division of labor among men. This is hardly rational enough for the present day; but a more satisfactory explanation is suggested in its "advantage" coming from an "increase of the productive powers of labor," special

<sup>1</sup> Above, p. 125.

<sup>2</sup> And the Physiocrats did not logically impute "productivity" to labor, but to land.

<sup>3</sup> *Wealth of Nations*, Bk. I, Chap. VIII (Cannan's ed., p. 67).

<sup>4</sup> *Ibid.*, Bk. II, Chap. III (Cannan's ed., p. 313).

<sup>5</sup> Above, p. 126.

adaptations among men giving rise to this advantage. The occasion for such a division is, of course, the power of exchange. Division of labor, he points out, is limited by the extent of the market. As to its advantages, Smith says: "The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labour."<sup>1</sup> Pin making, for example, is a peculiar trade which is "divided into a number of branches of which the greater part are likewise peculiar trades." As a result each man produces at least 240 times as many pins as if he worked alone. The advantages are analyzed as being due to three circumstances: the increase of dexterity in the individual workman; the saving of time otherwise lost in passing from one process to another; and "to the invention of a great number of machines which facilitate and abridge labour."

It is important to note that this statement of the case for division of labor was a real contribution, for earlier statements had attributed the phenomenon chiefly to differences in natural aptitudes of man and to special environmental advantages.

**Value.** — Smith begins his discussion of value by distinguishing value in use from value in exchange: the former is similar to the utility<sup>2</sup> of recent economic analysis, such as is possessed by water and air; the latter is the power of purchasing goods, of which diamonds afford an illustration. "The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use." In this distinction Smith is in accord with the idea of *valeur usuelle* and *valeur vénale* as held by Quesnay and the Physiocrats. It will be noted that this treatment limits "use" in a sense not now observed

<sup>1</sup> Bk. I, Chap. I (Cannan's ed., p. 5).

<sup>2</sup> Not marginal utility, but general capacity to satisfy wants regardless of supply, — total utility.



by economists, involving as it does an ethical idea. John Stuart Mill later called Smith to account for denying utility to anything which satisfies human wants, as diamonds undoubtedly do. Smith and his followers have also been criticised with some justice for failing to distinguish the concept of utility from "value in use."<sup>1</sup> Doubtless the coupling of "value" with "use" in a single term tended to conceal the significance of bare utility and to prevent the separation of the objective value in use from the subjective.

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"The real price of everything," he says, "what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it."<sup>2</sup> Accordingly, without adequate consideration of the case of natural scarcity, a cost theory is the one which prevails in Smith's mind. As suggested in the preceding quotations, cost is thought of as labor expenditure, — the cost of toil and trouble. "Labour was the first price, the original purchase money that was paid for all things. It was . . . by labour, that all the wealth of the world was originally purchased."

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In short, in order to understand Smith's theory of value it seems absolutely necessary to keep in mind the distinction between cause and determinant, on the one hand, and measure, on the other. On the one hand, labor is spoken of as an amount of toil or trouble of acquirement, as a quantity employed in production, "what it really costs the person who brings it to market," etc. These things "*regulate*" value, while the quantity of labor a thing exchanges for is "the real *measure*" of exchange value. To what extent this distinction was consciously made by Adam Smith cannot be said, but it seems more than mere chance that the usage is so consistent on the lines suggested. ✓

Of the two ways of looking at the problem, the labor-cost-determinant is the more fundamental.

It is the labor required in production that so limits the supply of a commodity as to allow it to have purchasing power. (

That Smith had it in mind that what determines the amount of labor a thing will command is the amount of labor (and capital, after the accumulation of stock) it contains, is quite clear. Before the accumulation of stock, etc., if division of labor had been carried out, goods "would have been produced by a smaller quantity of labour; and as the commodities produced by equal quantities of labour would naturally in this state of things be exchanged for one another, they would have been purchased likewise with the produce of a smaller quantity."<sup>1</sup> Or, speaking of precious metals, he remarks, "As it costs less [1] labour to bring those metals from the mine to the market, so when they were brought thither they could [2] purchase or command less labour."<sup>2</sup>

This being so, how are we to express the amount of purchasing power or value in the commodity? As labor ceases to be the sole cost this question becomes of increased significance. Money and corn so vary in this power to command

<sup>1</sup> Bk. I, Chap. VIII (Cannan's ed., p. 66).

<sup>2</sup> Bk. I, Chap. V (Cannan's ed., p. 34).

other commodities that they are hardly suitable, so Smith resorts to labor again, this time as a measure. Under ordinary conditions the laborer "must always lay down the same portion of his ease, his liberty, and his happiness." He may receive more or less goods, but the price he pays in labor is the same: their value varies, not that of the labor which purchases them.<sup>1</sup>

It is perhaps worthy of note that the concept of labor as the measure of value becomes more and more prominent as Smith develops his idea of an advanced state of society in which labor is not the whole purchase price of goods.

It is to be regretted that Smith was not more clearly conscious of the distinction between the causation and the measurement of value. If he had understood that the ascertainment of the cause of the quality of being valuable does not furnish a measurement of the quantity of value, he might have given us a more satisfactory explanation of why different things have different quantities of value, — which is the problem of the determination of value.

Such being the basis for his cost theory of objective exchange value, the question as to its application and serviceableness arises. Smith himself states that values are not adjusted by any accurate measure, but according to a rough approximation to equality, through the higgling of the market. His idea is that the average labor cost may be used. Taking the laborer of ordinary or average skill, strength, and health, a day's work will always involve the same amount of disutility, — the same sacrifice of ease, liberty, and happiness. In Chapter VI he makes allowance for the difference in hardship, skill, etc., characteristic of different occupations; and, while steering perilously near to introducing a discordant utility element, he concludes that frequently a compensation for skill is equivalent to one for time and labor spent in acquiring skill.

~~Smith did not have the idea of marginal costs to fall back upon.~~ Instead he uses the device of an average man under

<sup>1</sup> Bk. I, Chap. V (Cannan's ed., p. 35).

average circumstances. If this use of the average man is considered, and it is remembered, furthermore, that Smith seeks to determine value only indirectly and through cost, his reasoning does not seem to be open to criticism on the ground of a lack of homogeneity in environmental conditions, or in quality of labor, in so far as a given occupation is concerned.<sup>1</sup> The conception of an average labor cost under average conditions for an average workman of a given grade does not appear illogical.

Nor is he inconsistent in his use of corn, money, and labor as measures; for he takes up the two former as merely the more expedient, basing their validity upon their ability to command labor.

Holding the idea he did of value as an objective exchange relation, however, his quest of a long-time or absolute standard is inconsistent.

It remains to be noted that Smith made the distinction between *natural price* and *market price*. When the price just covered the ordinary rate of rent, wages, and profits expended in preparing and marketing the commodity, it sold at its "natural price." The market price might be above or below this, depending upon the supply actually on the market and the "effectual demand" — the demand of those who were willing to pay the natural price.<sup>2</sup> "The natural price itself varies with the natural rate of each of its component parts, of wages, profit, and rent; and in every society this rate varies according to their circumstances, according to their riches or poverty, their advancing, stationary, or declining condition."<sup>3</sup> Smith also suggests the importance of demand as determining supply.

**The Classes of Society and their Interests.** — According to Smith there are *three great original constituent orders* of civilized society: they consist of those who live by rent, those who live by wages, and those who live by profit.

<sup>1</sup> But cf. Davenport, *Value and Distribution*, p. 9. See below, pp. 447, 459 where Marx takes up this same problem.

<sup>2</sup> Bk. I, Chap. VII (Cannan's ed., p. 58).

<sup>3</sup> *Ibid.* (Cannan's ed., p. 65).

Others derive their revenue from these. The interests of these classes may diverge one from the other, and from the general interest of society. That of the rent-takers, however, is connected inseparably with the social interest, and might safely be taken as a guide for legislation.<sup>1</sup> But as their revenue requires neither labor nor care they are indolent, unsuited for public office. Likewise the interests of the wage earners are strictly connected with those of society, but so ignorant are they that they cannot understand their own or society's needs, and their voice has small weight. The third order of men, those who live by profit, have interests quite at variance with those of society. They necessarily desire to narrow competition. They are acute, but selfish, and commercial legislation proposed by them should be regarded with suspicion.<sup>2</sup>

The determination of the shares of these orders, then, beginning with wages, is the problem to be considered next.

**Wages.** — As in many other instances, so in his statements on wages, Smith is not clear-cut. In the *Wealth of Nations* may be found traces of virtually every wage theory ever developed. In general, however, his doctrine was that wages depend on labor supply and demand. On the one hand the supply is limited and a minimum set by the price of the necessities and conveniences of life, or, as he puts it in another place, by the "ordinary or average price of provisions."<sup>3</sup> On the other hand is the demand for labor, which depends on the surplus stock of the nation or the national wealth. The increase in this stock is the important thing. If there be an advancing state of society, the demand is great and wages are high.<sup>4</sup> If there is a relative increase in any trade, there is a rise of wages in it.<sup>5</sup>

<sup>1</sup> This was not consciously so with the landlord. "It is to no purpose that the proud and unfeeling landlord views his extensive fields, and, without a thought for the wants of his brethren, in imagination consumes, himself, the whole harvest that grows upon them." (*Theory of Moral Sentiments*, pp. 348 ff., 1st ed.)

<sup>2</sup> *Wealth of Nations*, Bk. I, Chap. XI, conclusion (Cannan's ed., p. 249).

<sup>3</sup> Bk. V, Chap. II, art. iii (Cannan's ed., p. 348).

<sup>4</sup> Bk. I, Chap. VIII (Cannan's ed., p. 71, *et passim*).

<sup>5</sup> Bk. I, Chap. X, part ii, 3d argument (Cannan's ed., p. 136).

By "necessaries" Smith understood "whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without."<sup>1</sup>

While he argued that in Great Britain wages were considerably above the subsistence level, yet he held that in the stationary state of society laborers would "naturally multiply beyond their employment," and wages soon be reduced to the lowest level "consistent with common humanity."<sup>2</sup>

Indeed, forebodings of Malthusianism appear more than once.<sup>3</sup> Moreover, certain passages plainly suggest the wages-fund idea. "The demand for those who live by wages, it is evident, cannot increase but in proportion to the increase of the funds which are destined for the payment of wages," these funds being the employers' revenue surplus over their own subsistence and any "stock" not necessary for their own employment.<sup>4</sup> And again he speaks of "the funds destined for the payment of wages."

There can be no doubt that Adam Smith was very well disposed toward labor. As forming the greater part of society, what benefited it could hardly harm the whole. No society could be truly flourishing and happy with its laboring classes poor and miserable. "It is but equity, besides, that they who feed, cloath, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged."<sup>5</sup>

As one turns the pages of the *Wealth of Nations* and observes its lack of system, it is easy to see how the Social-

<sup>1</sup> Bk. V, Chap. II, pt. ii, art. 4 (Cannan's ed., p. 354).

<sup>2</sup> The pessimistic effect of such passages is evidenced by the following quotation from Weyland's *Population and Production*, 1816. ". . . it follows that it is also our duty to use every exertion for the purpose of preventing a country from resting in the stationary condition, which Dr. Smith designates as 'hard' and 'dull,' or from sinking into the declining state, which is described as 'miserable' and 'melancholy'" (p. 5).

<sup>3</sup> "Every species of animals naturally multiplies in proportion to the means of their subsistence, and no species can ever multiply beyond it." Bk. I, Chap. VIII (Cannan's ed., p. 81).

<sup>4</sup> *Ibid.* (Cannan's ed., pp. 70-71).

<sup>5</sup> *Ibid.* (Cannan's ed., p. 80).

ists have drawn inspiration from its words. To begin with, there is a deductive, naïve account of early society. In this stage, or "originally," as Smith generally says, everything is bought with labor, and everything belongs to the laborer. Then comes appropriation of land, — and we are reminded that the landowner loves to reap where he has not sown. And, thirdly, accumulation of stock follows. At points his words suggest that these agencies take a part of what labor really produces. The last quotation, for example, does so. But it is only a superficial reading that allows such a conclusion. For Smith clearly states that capital is necessary to manufacturers, and trade to the convenience of society, implying its productivity.<sup>1</sup> And no one can well read the introduction to Book II and say that Smith denied either productivity or importance to capital, or that he desired a return to his original state.

**Profits and Interest.** — "The increase of stock, which raises wages, tends to lower profit. When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profit; . . ." <sup>2</sup> These are the words with which Adam Smith explains the forces which determine profits. "They are regulated altogether by the value of the stock employed, and are greater or smaller in proportion to the extent of this stock," he says in another place.<sup>3</sup> The competition of capital keeps profits down,<sup>4</sup> and in an advancing state where wealth increases they are lowest, thus moving ordinarily in the opposite direction from wages. The idea of a minimum rate is not clearly worked out. One may imply that if, from the lowest competitive price at which the dealer is likely to sell his goods for any considerable time, wages and rent are deducted, the remainder is profit.<sup>5</sup> "Unless they

<sup>1</sup> Bk. II, Chap. V (Cannan's ed., pp. 340-341).

<sup>2</sup> Bk. I, Chap. IX (Cannan's ed., p. 89).

<sup>3</sup> Bk. I, Chap. VI (Cannan's ed., p. 50).

<sup>4</sup> Bk. I, Chap. IV (Cannan's ed., p. 335).

<sup>5</sup> Bk. I, Chap. VII. But profits may rise so high as to encroach on rent, Bk. I, Chap. IX (Cannan's ed., p. 98).



yield him this profit, . . . they do not repay him what they may very properly be said to have really cost him." More specifically he says that the lowest ordinary rate of profit must be something more than what is sufficient to compensate the occasional losses to which the employment of stock is exposed.<sup>1</sup> Elsewhere he so writes that it may be inferred that profits must cover the costs incurred by the employing capitalist in advancing wages to his laborers; when the capitalist does not himself employ his capital, part of the profits naturally belongs to the borrower, who runs the risk and takes the trouble of employing the capital.<sup>2</sup> The other part in this case is *interest*, and Smith thinks its minimum "must be something *more* than sufficient to compensate the occasional losses to which lending, even with tolerable prudence, is exposed."<sup>3</sup>

Smith is fairly consistent in using "profits" to indicate the return upon capital — what "can be made by the use of a capital," — while "interest" is a part of profits and refers to the price which can be paid by a borrower for the use of capital. His use of the terms "gross profit" and "neat or clear profit" is not very definite, it being left for his followers, Senior and Mill, to develop the analysis. He differs from them markedly in his distinction between wages of superintendence ("inspection and direction") and profits,<sup>4</sup> for he appears to exclude such wages from the latter return.

Two exceptions are made to the statement that wages and profits move in diverse directions: in new colonies both wages and profits may be high; and in the "stationary state" both wages and profits may be low.<sup>5</sup>

Profits so vary from day to day by reason of change in prices and fortune that it is impossible to determine their

<sup>1</sup> Bk. I, Chap. IX (Cannan's ed., p. 97).

<sup>2</sup> Bk. I, Chap. VI (e.g. Cannan's ed., p. 54).

<sup>3</sup> Bk. I, Chap. IX (Cannan's ed., p. 98); author's italics.

<sup>4</sup> Bk. I, Chap. VI, paragraphs 5 and 6 (Cannan's ed., p. 50).

<sup>5</sup> *Ibid.* In the latter case Smith must mean real wages, as the high prices of subsistence in the stationary state would cause high money wages.

average rate; but some notion may be formed of their course from the interest of money, which they closely follow.

○ **Rent.** — In the *Wealth of Nations* the treatment of land and rent begins with the well-known dictum that when the land of a nation has all been appropriated, the owners demand a rent even for its natural produce. The laborer then has to pay the landowner for the license to gather the fruits of the earth, giving the latter part of what his labor collects or produces, that is, rent.<sup>1</sup> This rent is the highest price which a tenant can pay his landlord. Its natural rate will leave him only wages and profits. If the price of his produce yields him more than this, the landlord can and will exact it. "The rent of land, therefore, considered as the price paid for the use of land, is naturally a monopoly price."<sup>2</sup> This rent varies with the fertility and the situation of the land. If distant from the market, a greater amount of labor is required and the surplus remaining for the landlord is diminished. Hence, good roads, canals, and rivers equalize rents.

Except for calling the landowner a monopolist and his rent a monopoly return, the main outlines of Smith's treatment of rent as the income of the landowner agree with more recent thought. It is in the discussion of the relation of rent to price that he is inconsistent. In the foregoing account of his theory of value it was remarked that he included rent as a cost. Yet in his chapter on rent he makes its amount depend upon price rather than enter into the determination of price. This contradictory treatment seems inexcusable, for we know that Smith's attention was called to the error of making rent a price-determining cost along with wages and profits.<sup>3</sup> The explanation appears to be that, lacking the concept of the margin, in the first instance he confused the causes of higher prices for agricultural produce with rising rents. And it seems likely that there

<sup>1</sup> Bk. I, Chap. VI. Compare Hume's essay, *Of Interest*.

<sup>2</sup> Bk. I, Chap. XI.

<sup>3</sup> In correspondence with Hume.

was a further confusion between the idea of entrepreneur's expenses and general costs. Between the two *he* became confused. In some cases, as, for example, in saying that the natural price of a commodity is the one just sufficient to pay rent, profits, and wages, he undoubtedly takes the merchant's point of view. Again, when he says that the total produce of a nation, or its price, is divided into three parts, he merely has in mind the obvious fact that rent and wages and profits must all be paid from this total produce. But at other points he speaks as though rent were a deduction from wages and took the place of a part of the original labor cost of things, entering value in lieu of labor as it were.

In any case, his ideas were not well formed, and he shifts his point of view. In this matter of the relation of rent to price the philosopher-economist was working into new fields.

**Public Finance.**— Smith points out two sources of public revenue: the funds, land, and capital of the state; and taxes. He favors the use of the latter alone. Then come the four celebrated canons of taxation: (1) taxes should be levied according to the ability of those who pay them; (2) their amount should be certain and known; (3) their levy should be in the manner most convenient for those taxed; (4) and they should be so contrived as to be most economically collected.

Whether or not these canons of taxation were all original with Smith,<sup>1</sup> his formulation attracted great attention, and their influence, through his writing, has been notable.

Of course, all taxes must be drawn ultimately from rent, profits, or wages; and these sources are reviewed for the purpose of ascertaining the best, the conclusion being that capital and wages should not be taxed, directly, at least, and that rent forms the best basis. Assuming that profits are equalized by competition, a tax on this order of revenue would be borne by the consumer. In any case it would be very difficult to assess and collect. In this connection, too, Smith argues against taxing transfers of property by sale

<sup>1</sup> See above, pp. 149, 196.

or inheritance. As to wages, the tax would, in the long run, fall on the consumer, — in fact, prices would be raised by an amount greater than that of the tax.

Thus rent remains as the most desirable source, and in the last analysis Smith's position is similar to that of the Physiocrats. But he differs from the *impôt unique* idea in advocating taxes on luxuries. In this way the capitalists and landowners might be reached as consumers.

In discussing the land tax Smith allows several departures from the let-alone policy, although he does not seem to suspect that he is disturbing the harmony of his system. It requires little reflection to show that levying taxes in such a way as to encourage one method of production and discourage another is going very far in the way of governmental interference in private economic affairs. Thus when Smith favors taxing at a lower rate those landlords who cultivate their own lands, or levying a specially high rate on those who restrict the freedom of their tenants, he thereby advocates a virtual departure from *laissez faire*.<sup>1</sup>

**Government Interference: Laissez Faire.** — In passing to Book V, "The Revenue of the Sovereign or Commonwealth," Smith takes occasion to make a formal statement of the important duties of the sovereign according to the "system of natural liberty." These duties or functions are as follows: (1) "the duty of protecting society from the violence and invasion of other independent societies; (2) the duty of protecting, as far as possible, every member of society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and (3) the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain, . . . though it may frequently do much more than repay it to a great society."<sup>2</sup> The three duties are, therefore, briefly: (1) pro-

<sup>1</sup> Bk. V, Chap. II, Art. 1.

<sup>2</sup> Bk. IV, Chap. IX (Cannan's ed., p. 185).

tection against foreign states; (2) the administration of law and justice; (3) the establishment and maintenance of certain public works and institutions. Number (3) is divided into (a) the institutions and public works in favor of trade and commerce, as streets, canals, harbors, embassies, fortifications in countries belonging to barbarous peoples; (b) the education of the youth, *i.e.* the school; (c) the education of the entire people, *i.e.* the Church.

The nation ought to be protected by a paid army subject to the authority of the king. Government in civilized states should make it the interest of a part of the people to become good soldiers. This matter may not be left to itself. Self-interest of private individuals is here an insufficient motive power.

The last two classes of duties should be performed *as far as possible* by the people acting under the impulse of self-interest; but the state must see that they are performed. Even judges, according to Smith, should compete with each other like merchants. Each one should strive to draw to himself the largest possible number of cases and earn his living by court fees and stamp duties. The one who did most business should receive the most pay. Fees should be withheld from the judge until the process was determined, in order to incite the court to diligence and to expedite business. Streets should be kept in order by tolls; harbors by port duties. He holds that Church and State should be independent of each other.

The Church, the school, streets, harbors, and similar public works are, however, beneficial to the entire society, and it would really be no injustice if society were required to defray the expense of their establishment and maintenance; but as they benefit especially those who use them immediately, it is to be recommended that such users pay for them. That Smith is able to take both views of the matter and allow that both may be perfectly right, shows how little inclined he was to be a mere doctrinaire.

Outside of these general social and economic functions,

however, no inconsiderable dispute has existed over the extent to which Adam Smith favored government interference. Some have maintained that he held that the unrestrained action of selfishness leads to the highest attainable prosperity of the commonwealth; others, that he recognized the necessity of a considerable activity on the part of other forces for the attainment of the highest degree of prosperity.

The truth appears to be that in all ordinary cases, according to Smith's idea, the "natural" action of private self-interest leads to the most perfect organization of social and economic relations and to the highest welfare of all. Thus he argues that "the patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper without injury to his neighbor, is a plain violation of this most sacred property. . . . The affected anxiety of the lawgiver is evidently impertinent as it is oppressive." And again he states that "every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage indeed and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is more advantageous to the society."

These excerpts seem to make Smith's position clear enough. But two modifications are to be noted: he states that class interests may run counter to those of society; and he admits several particular exceptions to the general principle of *laissez faire*. As to the former, it is a modification, not a contradiction, of the let-alone principle. That Smith did not believe in an entire harmony of class interests is true; but it does not follow that he should have called in the aid of the state authority, nor did he. The idea limits his optimistic conclusions rather than conflicts with his *laissez-faire* doctrine.

The exceptional cases in which the government might properly interfere, were concretely:—

1. *In foreign commerce.*—Taxes on imports were justifiable in order to make a nation self-sufficient in such things as saltpeter, and in shipping (Navigation Acts); and also, if goods produced at home were taxed, imports of these goods should bear a similar tax. If English products were taxed in foreign countries, it would then be "a matter of deliberation" whether foreign taxation could not be abolished by retaliatory duties. A duty on exports of wool was to be favored under certain circumstances.<sup>1</sup>

2. *In banking.*—Where the liberty of a few endangers the liberty of the whole society, it ought to be restrained by law.<sup>2</sup>

3. *Interest rates.*—Smith thought that the rate of interest should be legally fixed, though with due regard to the market rate.

4. *Education.*—In the case of those who could not afford an education, the government might profitably provide for free schooling.

Besides these, and the interference suggested in the taxation of rents,<sup>3</sup> there are certain places in which Smith expresses approval of interference by the state; as, for example, where he speaks of measures intended to regulate the relations between laborers and employers, in framing which the government takes advice of the latter only. He says of this case: "When the regulation, therefore, is in favor of the workman, it is always just and equitable. . . ."<sup>4</sup>

**Philosophy and Method.**—Some of the particular aspects of Adam Smith's philosophy have already been pointed out,—its assumption of the "natural," its self-interest basis, its let-alone policy. When, however, it comes to placing him in one of the other of the two great groups, Idealists and Materialists, the matter is not so simple. A well-

<sup>1</sup> Bk. IV, Chap. VIII (Cannan's ed., p. 152), several of these exceptions not allowed until 3d ed., 1784.

<sup>2</sup> Bk. II, Chap. II (Cannan's ed., p. 307).

<sup>3</sup> Above, p. 213.

<sup>4</sup> Bk. I, Chap. X, Pt. ii (Cannan's ed., p. 143).

known German economist, for instance, declares Adam Smith and Kant to be at one.<sup>1</sup> In which case he might be rated as an idealist. On the other hand, a great majority would consider the *Wealth of Nations* as predominated by materialistic tendencies. In so far as his belief about the natural tendencies of men in their industrial relations is concerned, the latter view appears sound. The fruits of its influence show it at a glance.

Yet just as his free trade teaching was not unqualified, so the philosophy displayed in the *Wealth of Nations* is far from simplicity and uniformity. Smith the practical man, drawing conclusions from the business world, Smith the thorough-going individualist, Smith narrowly limiting productivity to vendible commodities and speaking of men as "other commodities."<sup>2</sup> Smith of utilitarian tendencies, tended to emphasize material things; and this was the dominant Smith. To this Smith a man's career is determined by environment;<sup>3</sup> division of labor dominates character, rather, than *vice versa*,<sup>4</sup> and men are the pawns in a great machine-like game of nature.<sup>5</sup> On the other hand, and half-concealed in the *Wealth of Nations* at least, there was another Smith who somewhat limited his optimistic individualism, who tacitly deduced conclusions from ideal postulates, who emphasized the social point of view, and who opposed duty and moral considerations to the "natural." This was the Smith who wrote the *Theory of Moral Sentiments*, and he shows clear traces of an idealistic tendency.

The difficulty in classifying Smith's underlying philosophy

<sup>1</sup> Oncken, *Die Ethik Smith's u. Kants*.

<sup>2</sup> Bk. I, viii (Cannan's ed., p. 82). "It is in this manner that the demand for men, like that for any other commodity, necessarily regulates the production of men."

<sup>3</sup> Smith thought men were born with equal capacities.

<sup>4</sup> Bk. I, ii (Cannan's ed., pp. 7-8).

<sup>5</sup> See *Theory of Moral Sentiments*, pp. 290-292 (1st ed.).

According to Bonar, Adam Smith thought of industrial progress as nature's doing, not man's: "It was according to law, but not a law of man's making; indeed man could not try deliberately to make it without spoiling the work of nature." (*Philos. and Pol. Econ.*, p. 174.)



is undoubtedly due in part to the nature of the subject as he conceived it. To him, economics concerned the wealth of nations; economic activity lay in the pursuit of wealth, and chiefly material wealth; and the mainspring of economic activity was self-interest. Thus he abstracted it from other human activities and motives. As Bonar has admirably observed, his "system of natural liberty would not lead to perfect economy unless men are, for the sake of the argument, supposed to be infallible in judging their interests and single-minded in pursuing them."<sup>1</sup> It is, perhaps, true to say that Adam Smith's materialism lies more in his economic man than in himself, and that any obloquy on this score harks back to his abstraction.

But Adam Smith can hardly be called a utilitarian in philosophy, though he gives the idea of utility much greater play than did the Physiocrats. Like them he had a metaphysical idea of a natural order; but as a hard-headed Scotchman he could not go the full length they were willing to go in subordinating everything to this order. In any conflict between the natural on the one hand and the expedient or practical on the other, the latter won in Smith's mind. He tended to find justification for what was useful. It might be said that his kind of nature philosophy was ultimately based on utility. He was no utilitarian, however, in the sense that Bentham, Ricardo, and Mill were: he was not so thoroughly rational in his thought, nor did he have the pleasure-and-pain calculus worked out by Bentham and Mill. His use of utility was veiled, as it were, by his nature philosophy.

In his *Theory of Moral Sentiments*, moreover, he makes virtue for its own sake a primary consideration.<sup>2</sup> Though, together with the Physiocrats, Smith was instrumental in bringing about a formal separation of Political Economy from so-called Moral Philosophy and Jurisprudence, — and this is one of his services, — his philosophy and that of his

<sup>1</sup> *Philosophy and Political Economy*, p. 178.

<sup>2</sup> E.g. p. 203 (1st ed.).

successors has an ethical element.<sup>1</sup> The assumed naturalness of perfect competition was the criterion. As a general proposition, if freedom to compete were encroached upon, the encroachment would be *wrong*. Their philosophy was in this regard, then, not dissimilar to the just-price idea, "natural law" being substituted for the law of clergy and state.

On the score of method the same duality appears, and one writer is found stating that Smith established "a deductive and demonstrative science," while another holds that the *Wealth of Nations* consists simply of practical and common-sense suggestions.

As long ago as 1870, Cliffe Leslie expressed the following analysis of Smith's reasoning which seems to be essentially sound: "An examination of Adam Smith's philosophy enables us to trace to its foundation the theory upon which the school in question has built its whole superstructure. The original foundation is in fact no other than that theory of nature which, descending through Roman jural philosophy from the speculations of Greece, taught that there is a simple Code of Nature which human institutions have disturbed, though its principles are distinctly visible through them, and a beneficial and harmonious natural order of things which appears wherever nature is left to itself. In the last century [the eighteenth] this theory assumed a variety of forms and disguises, all of them, however, involving one fundamental fallacy of reasoning, *a priori* from assumptions obtained, not by the interrogation, but by the anticipation of nature; what is assumed as nature being at bottom a mere conjecture respecting its constitution and arrangements. The political philosophy flowing from this ideal source presents to us sometimes an assumed state of nature or of society in its natural simplicity; sometimes an assumed natural tendency or order of events, and sometimes a law or principle

<sup>1</sup> Indeed it is not free from theological premises. Cf. Leslie's Essay on the "Political Economy of Adam Smith," *Fortnightly Review*, Nov. 1, 1870; republished in *Essays in Political Economy and Moral Philosophy*.

of human nature ; and these different aspects greatly thicken the confusion perpetually arising between the real and the ideal, between that which by the assumption ought to be, and that which actually is. The philosophy of Adam Smith, though combining an inductive investigation of the real order of things, is pervaded throughout by this theory of nature, in a form given to it by theology, by political history and by the cast of his own mind."

Thus he assumes *a priori* the existence of an "original state" which is the "natural order." Moreover, certain instincts are derived by the same method, and their working in the original state is deduced. For example, men are assumed to have a natural propensity to "truck and barter," from which division of labor results. And, again, a desire to better his condition, and to live as much at his ease as possible is taken for granted as characterizing every man.<sup>1</sup>

The conclusion is that Smith's underlying philosophy was individualistic with a strongly materialistic tendency ; but that it was hardly utilitarian, though containing the germs of utilitarianism and tending in that direction.

His method was a combination of induction and deduction, the latter predominating in his broadest and most fundamental reasonings.

**Practical Influence.**— There can be no doubt that the political economy of Adam Smith has had a tremendous practical effect. The *Wealth of Nations* has been translated into the languages of all civilized peoples. It has almost everywhere directly or indirectly influenced legislation in a marked manner. In some countries the influence of the principles it taught has even been too great to be conducive to a sound growth of institutions. In England it passed through five editions while Smith still lived. In 1876 the centennial of its appearance was celebrated, and it is one of the very few books to which has been awarded the honor of a centenary commemoration.

The statesman, Pitt the younger, was a careful student

<sup>1</sup> Bk. II, Chap. III (Cannan's ed., p. 323).

and professed follower of Smith, modifying his policy to a certain extent so as to make it accord more clearly with the principles of the *Wealth of Nations*. Had circumstances permitted, he would gladly have gone farther in the direction pointed out in that work, but his plans were crossed by the French Revolution, as well as by the prejudice and ignorance of conservative England. "His power rested above all on the trading classes, and these were still persuaded that wealth meant gold and silver, and that commerce was best furthered by jealous monopolies."<sup>1</sup> Nevertheless, he effected a considerable number of important economic reforms. Holding with Adam Smith that in the arithmetic of taxation two and two instead of making four, sometimes make only one, he removed numerous customs duties and reduced others. He was thus able to diminish smuggling, and increase the revenues. Adam Smith had made special mention of the injustice of prohibiting the importation of Irish cattle into England to protect the English farmer, and this prohibition Pitt desired to abolish, as well as the heavy duties on imported Irish manufactures. One of his first measures as minister was an attempt to conciliate the Irish by removing the barriers which restricted their commerce with England. In 1800, after some early failures, he accomplished his purpose by the union of England and Ireland which provided for the ultimate freedom of commerce between the two islands.

**The Manchester School.** — This work of enfranchisement was carried on and consummated by the "Manchester School"; for when, in 1819, Parliament provided for a retention of some duties between England and Ireland, it was the Manchester Chamber of Commerce which so protested as to cause a retraction of that backward step. Although it involves a glance ahead into the nineteenth century, just a word concerning the school should be presented here.

The name "Manchester School" applies to a group of

<sup>1</sup> J. R. Green's *History of the English People*, Vol. IV, Chap. III.

men who were active in advocating free trade and who believed that a heavy burden of proof rested upon those who would do away with *laissez faire* in any field. These men were most active between 1820 and 1850; their work centered largely in the propaganda of the Anti-Corn Law League; and, as the League consisted largely of prominent Manchester merchants and manufacturers, the Annual Reports of the Manchester Chamber of Commerce express their ideas. Richard Cobden and John Bright were their leaders. They stood for a revolt against regulation and for a practical application of Adam Smith's ideas. Freedom, they reasoned, is the natural condition of the individual, and protection is a harmful restraint upon unprotected industries. It is incorrect, however, to think that as a whole they overlooked humanitarian interests in opposing factory legislation. The leaders of the group certainly favored regulation to protect children, while believing that adults should be free to contract. Through Bastiat, as will be seen, the school exerted considerable influence in France.<sup>1</sup> In this manner was Smith's influence perpetuated.

Buckle, who appears to have looked into the matter, said that the first notice of the *Wealth of Nations* in Parliament, so far as he knew, was in 1783, and that it was mentioned several times there between that date and the close of the century. After some intervening remarks he adds: "Well may it be said of Adam Smith, and that too without fear of contradiction, that this solitary Scotchman has, by the publication of one single work, contributed more towards the happiness of man than has been effected by the united abilities of all the statesmen and legislators of whom history has presented an authentic account." Even Bagehot says: "The life of almost every one in England—perhaps of every one—is different and better in consequence of it. No other form of political philosophy has ever had one thousandth part of the influence on us."

<sup>1</sup> On the Manchester School see Rogers, *Cobden and Political Opinion*, 1873; Prentice, *History of the Anti-Corn Law League*, 1853; Cobden's *Speeches*, edited by Bright and Rogers, 1870; Bright's *Speeches*, edited by Rogers, 1868.

Englishmen delight to call Adam Smith the Father of Political Economy. While it is possible that this title belongs rather to Turgot than to him, there is no doubt that the *Wealth of Nations* has become the corner stone of economic science. Those who went before, prepared the way for him; those who came after, carried on his work.

**Critical Estimate of Smith's *Wealth of Nations*.**—An eminent follower of Adam Smith, N. W. Senior, summed up his work in the following terms: "The inquiry which Quesnay originated was pursued, and with still greater success, by Adam Smith. Smith was superior to Quesnay, and perhaps to every writer since the times of Aristotle, in the extent and accuracy of his knowledge. He was, on the whole, as original a thinker as Quesnay, without being equally subject to the common defect of original thinkers, a tendency to push his favorite theories to extremes; and in the far greater freedom then allowed to industry in Great Britain than in France, and in the greater publicity with us of the government receipt and expenditure, he possessed far greater advantages as an observer . . . assisted by a style unequalled in its attractiveness, he has almost completely superseded the labours of his predecessors."<sup>1</sup>

Though Smith's thought is justly praised for its moderation, and his style for its attractiveness, the careful reader notices not a few careless, ill-expressed utterances and many inconsistencies. Universal rules are given absolutely, only to be followed by important deviations; now a factor is cause, now effect, etc. In spite of his moderation, relatively to both predecessors and followers, too, an undue absolutism somewhat mars his reasoning. To this extent Senior's estimate must be modified. But on the whole it is eminently just.

With more specific reference to Smith's contribution to the material of economic thought, another well-known follower of his has said: "In adopting the discoveries of others, he has made them his own; he has demonstrated the truth

<sup>1</sup> *Lectures on Political Economy*, 1852, p. 5.

of principles on which his predecessors had, in most cases, stumbled by chance; has separated them from the errors by which they were previously encumbered; has traced their remote consequences, and pointed out their limitations; has shown their practical importance and real value — their mutual dependence and relation; and has reduced them into a consistent, harmonious, and beautiful system.”<sup>1</sup>

To part of this statement of the case decided exception is to be taken, while much more is to be said. In some instances, as in the theory of value and rent, Smith does not trace remote consequences, nor does he show their dependence and relation. Certainly there is much lacking on the score of harmony and consistency.

Of the host of adverse criticisms of Smith's reasoning the following seem to be the most fundamentally important: —

I. His philosophy was over-individualistic. Its tendency was so to restrict the sphere of government activity — in spite of the particular exceptions he made — as to be the basis for harmful conclusions. This was in part the fruit of a negativism, which, though much less marked than that of the Physiocrats, was deep seated.

II. He was at bottom an essentially materialistic thinker. As Ingram says, “He does not keep in view the moral destination of our race, nor regard wealth as a means to the higher ends of life, and thus incurs, not altogether unjustly, the charge of materialism.”

III. These traits were made more harmful by his absolutism of theory. In spite of bits of historical treatment, he lacked the concept of relativity, and was led to state his doctrines too narrowly and in too sweeping a fashion.

To be noted as particular evidence of concrete error, is his treatment both of the productivity of different kinds of labor, and of the relation of rent to price.

Smith's chief services are mostly suggested in the above quotations. His breadth of view and catholicity were

<sup>1</sup> M'Culloch, *Discourse on the Science of Political Economy*, Edinburgh, 1825, p. 56.

notable. Taking in most of what was best in English and French thought, he gave Political Economy a definition and distinct content that it had lacked. He brought labor and capital into prominence along with the land factor emphasized by the Physiocrats. And, imperfect as it was, his discussion of value was a marked advance over that of any predecessor.

Before Smith, economic investigation was taken up with the producer of wealth. The producer was the starting point. While dealing largely with production, Smith started from the standpoint of the consumer: "Consumption is the sole end and purpose of all production, and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer."<sup>1</sup> Though sometimes overlooked or unexpressed, this has been the ultimate standpoint of the pure English school ever since.

There are surprisingly few important economic ideas of which there is not some trace in the *Wealth of Nations*. For example, there is the theory of population. This idea Smith suggests, but he does not work it out. The great problem of political economy has been found in the distribution of wealth, and but little progress can be made in its solution until inquiry is made with regard to the present, as well as probable future, population among which wealth is to be divided, and also the effects on its numbers to be expected from this or that distribution of wealth. Both Turgot and Adam Smith mentioned incidentally the effects of the increase of population on the wages of the laboring classes; but they did not bring the matter forward prominently, nor did they make any attempt at a discovery and scientific treatment of laws governing such increase. This work was reserved for Malthus.

<sup>1</sup> *Wealth of Nations*, Bk. IV, Chap. VIII (Cannan's ed., p. 159).



## II. THE EARLIER FOLLOWERS

As already indicated, the *Wealth of Nations* gained a rapid ascendancy and the dominant schools of economists in England and France soon came to call themselves the followers of Adam Smith. In Germany, too, Smith took the lead, though here his influence was not so quickly felt and a considerable degree of independence was early apparent. The Germans called this whole tendency *Smithianismus*. It is with these earlier followers of Smith's doctrines, in the late years of the eighteenth century and down to 1850, that this part of the work is to deal.

### 1. PESSIMISTIC TENDENCIES

It has been suggested that there were both optimistic and pessimistic tendencies embedded in the *Wealth of Nations*. Thus the idea that through self-interest men are led as by a divine hand so to act as to insure the best economic results for society is taught by Smith, and has been at the bottom of a large part of the optimism in economic thought. On the other hand, the doctrine that the interests of various classes clash with one another, and with those of society, may lead to pessimistic conclusions, though not necessarily. Moreover, in believing that every nation must at some time reach a "stationary state," Smith profoundly affected succeeding economic thinkers and opened the door for many pessimistic doctrines.

Accordingly, in what follows, two groups have been distinguished among the general adherents of Smith's teachings: those who fell in with the optimistic tendencies; and those who developed the pessimistic side. Perhaps one's views may be colorless as to optimism and pessimism. Certainly some of Smith's followers do not fall clearly in either group, and a third category has been retained for such.

Probably the pessimistic tendencies were developed earliest; and such tendencies appear in the thought of one of his first English followers, Malthus.

## CHAPTER XI

### MALTHUS AND THE THEORY OF POPULATION<sup>1</sup>

ONE of the greatest among Adam Smith's followers was Thomas Robert Malthus. There were others who lived about the same time, as Dugald Stewart and M'Culloch, who made some name for themselves as economists; but they added nothing essential: if their work should perish, it would occasion no perceptible gap in economic thought. Malthus is the first English economist after Smith, a consideration of whose thought falls within the scope of these chapters.

**Life and Circumstances.** — Malthus was born in Rockery, County Surrey, England, in 1766, and came of very respectable family. His father, Daniel Malthus, if not a man of wealth, appears at least to have lived in very comfortable circumstances. Young Malthus studied philosophy and theology at Cambridge, graduating with honors in 1788, and was made Fellow of Jesus College not long afterwards. After leaving Cambridge he took charge of a small parish in his native county. In 1799 he left England for a trip on the Continent in company with Daniel Clarke, a traveler of some note. On account of the war then disturbing Europe, he could see comparatively few countries, and those not the most important ones. He travelled through Sweden, Norway, Finland, and Russia. The notes scattered throughout

<sup>1</sup> On Malthus and his work see Bonar, *Malthus and his Work*, 1885; Fetter, *Versuch einer Bevölkerungslehre* (Jena, 1894), and "The Essay of Malthus, a Centennial Review" (in *Yale Review*, August, 1898); Hadley, *Economics*, §§ 47-60; Cannan, *Theories of Production and Distribution*; Gide-Rist, *Histoire des Doctrines Économiques* (1909), pp. 138 ff. and the following footnote references.

his writings show what good use he made of his opportunities for observation. The Peace of Amiens in 1802 enabled Malthus to visit France, Switzerland, and other parts of Europe which he was unable to see on his first tour. In 1805 he was made professor of history and political economy in the college of the East India Company at Haileybury, near London, and retained the position until his death in 1834.

Of more importance, perhaps, than any one factor in shaping Malthus' thought was the condition of England just prior to and during the time at which he wrote. During the first half of the eighteenth century the agricultural prosperity of England had been great; but toward the end of the century such distress prevailed that it seemed as if there were too many people for the land to support. Thorold Rogers, in another connection, testifies that during the last thirty years of the eighteenth century circumstances had totally changed: "There is . . . reason to believe that the increase of population was arrested. Prices rose,<sup>1</sup> and, at least while this country was at war with nearly the whole civilized world, the nation well-nigh suffered the horrors of famine. During the whole of that war, the country seemed to be passing through one of those cycles of scanty crops which appear to occur in some undefined but mysterious fashion."<sup>2</sup> Other reports only confirm these statements.

Of the state of Ireland at this time — a country mentioned by Malthus as furnishing a case of overpopulation — the historian Green writes: "Poverty was added to the curse of misgovernment, and poverty deepened with the rapid growth of the native population till famine turned the country into a hell."<sup>3</sup>

The evil effects of the Industrial Revolution had hardly

<sup>1</sup> Average prices of wheat per quarter by decades: —

1771-1780 . . . . .	34s. 7d.
1781-1790 . . . . .	37s. 1d.
1791-1800 . . . . .	63s. 6d.
1801-1810 . . . . .	83s. 11d.
1811-1820 . . . . .	87s. 6d.

<sup>2</sup> Introduction to Adam Smith's *Wealth of Nations*.

<sup>3</sup> *Short History of the English People*, p. 788.

come into view in Smith's day, but even when Malthus wrote his first edition they had manifested themselves. Unemployment, poverty, disease, and riot were among them. They made the agricultural situation still more significant for evil.

Partly as a result of these evils, various socialistic or communistic schemes springing up chiefly on French soil began to be urged.

To add to the whole dark picture, the English Poor Law was defective both in substance and administration. The rates were enormous, the independence of the laborer was sapped, and a premium was placed upon incompetence and pauperism.

Surely the conditions of the growth of population required investigation. Not the needs of some far-off place and time, but the requirements of his own age and country, gave Malthus his life work. Like so many great men, he was preëminently practical.

It has appeared that it was a Mercantilist notion that a very dense population is desirable. Well down to Malthus' day it was a general belief that a rapid growth in population meant prosperity. People were doubtless led to this opinion by observing that the wealthiest and strongest countries were often the most populous. This view was developed by the German economist Süssmilch, whose work — *Die Göttliche Ordnung in den Veränderungen des menschlichen Geschlechts*, 1742<sup>1</sup> — appears to have been diligently studied by Malthus. And Sonnenfels constructed his social system around this idea.<sup>2</sup> In many German cities the married state was a condition of holding office, and similar schemes were proposed in England. In Malthus' day the

<sup>1</sup> See Roscher, *Gesch. d. Nat. Oek.*, pp. 421-424. Süssmilch was an economist of Mercantilist leanings. He dealt with birth and death rates, the proportion of the population of various ages, etc., his service being the development of the idea of regularities or laws. He was acquainted with Petty's writings. He showed strong theological influences, taking as a text the Biblical injunction to be fruitful and multiply.

<sup>2</sup> *Grundsätze der Polizei, Handlung- u. Finanzwissenschaft*, Vienna, 1765.

government and the employing classes generally favored a denser population, the one to swell the army, the other to fill its factories and shops with cheap labor.

**His Forerunners.** — To be sure, Malthus did not originate the idea that population tends to increase faster than subsistence, nor that the increase in population brings hardship. In the preparation of his first essay (1798) he made use of the works of Wallace, Hume, Smith, and Price; while in the second edition he noted with some surprise that much had been done by Montesquieu, Franklin,<sup>1</sup> Stewart, Young, and Townsend. Dr. Robert Wallace, for example, in his *Various Prospects of Mankind, Nature, and Providence* (1761), saw a fatal objection to communism in "the excessive population that would ensue"; Smith's suggestions have already been referred to;<sup>2</sup> and the Rev. Joseph Townsend anticipated Malthus in observing that, where reason does not interfere, plenty is followed by increased population, want, and a higher death rate.<sup>3</sup>

Malthus was personally acquainted with Jean Jacques Rousseau and David Hume, and the latter must have exercised some direct influence over him. Indeed, in one of his essays Hume had attempted to estimate the populations of some of the states of classical antiquity;<sup>4</sup> and Malthus, by calculating the food supply available to those states, undertook to test those estimates and the statistics of the Greek historians.

**The *Essay on Population*: its Origin and First Edition.** —

The more immediate cause of the *Essay on Population* was furnished by the writings of William Godwin, a well-known

<sup>1</sup> Malthus cites the following remarkable passage in Benjamin Franklin's *Essay on the Increase of Mankind* (1751): "There is, in short, no bound to the prolific nature of plants or animals, but what is made by their crowding and interfering with each other's means of subsistence. Was the face of the earth vacant of other plants, it might be gradually sowed and overspread with one kind only, as, for instance, with fennel; and, were it empty of other inhabitants, it might in a few ages be replenished with one nation only, as, for instance, with Englishmen."

<sup>2</sup> Above, p. 208.

<sup>3</sup> *Dissertation on the Poor Law*, 1786.

<sup>4</sup> *Essay on the Populousness of Ancient Nations* (1752).

Englishman of the eighteenth century. In 1793 Godwin had published a work entitled *Enquiry concerning Political Justice and its Influence on Morals and Happiness*, which at the time created a great sensation. Its thesis was the perfectibility of man. In it Godwin took the ground that government—which he described as a necessary evil—is to blame for the unhappiness and misfortunes of man. The book was much discussed and of course found its advocates and opponents. Among the former was Daniel Malthus, among the latter, Thomas Robert, the son. Godwin published in 1797 a number of essays in the form of a book, entitled *Enquirer*.

It was in reply to one of these, on *Avarice and Prodigality*, that Malthus, in 1798, published the first edition of his famous *Essay on the Principle of Population; or, a View of its Past and Present Effects on Human Happiness; with an Enquiry into our Prospects respecting the Future Removal or Mitigation of the Evils which it Occasions*.<sup>1</sup> Malthus sought to show that an abolition of government could not restore us to Eden, because the ground of unhappiness and misfortune is to be found in our weak and imperfect natures. The first edition of the *Essay* attracted the widest attention and led Malthus to continue his investigations. As successive editions were called for, they were revised and enlarged, until the last edition of the work published during his lifetime—the sixth, in 1828—differed very materially from the original essay.

By reason of the occasion, the first edition was little more than a controversial pamphlet and was not unnaturally put forth anonymously. Godwin had written: "There is a principle in human society, by which population is perpetually kept down to the level of the means of subsistence. Thus among the wandering tribes of America and Asia, we never find through the lapse of ages that population has so increased as to render necessary the cultivation of the earth." And he held that the system of private property

<sup>1</sup> This is the title of the 2d edition.

then existing was the cause of unhappiness. He argued for a future equality of property, his doctrine being a sort of enlightened anarchism.

Malthus retorted, "This principle, which Mr. Godwin thus mentions as some mysterious and occult source . . . will be found to be the grinding law of necessity; misery, and the fear of misery."<sup>1</sup> He held that human institutions, far from aggravating, had tended considerably to mitigate this misery, though they could never remove it.

To this conclusion he was led by the assumption of two postulates or premises: (1) "that food is necessary to the existence of man;" (2) "that the passion between the sexes is necessary, and will remain nearly in its present state." Then, though not formally so stated, a third postulate is deduced from these; namely, "the power of population is indefinitely greater than the power in the earth to produce subsistence for men. Population, when unchecked, increases in a geometrical ratio. Subsistence only increases in an arithmetical ratio."<sup>2</sup> So ran the statement in the first edition.

It followed that certain checks must restrain the superior growth of population: a "preventive" check in the shape of a foresight of the difficulties of rearing a family; and "positive" checks in the shape of poverty, disease, war, and other forms of actual distress. Though he recognized that through foresight marriage might be postponed, he thought this would mean vice, which in turn would mean misery. Thus a happy or perfect state of society could not be hoped for.

One has but to compare the prefaces of the first and second editions to ascertain the essentials of the now classical development in Malthus' thought. In the former he emphasizes a possible future improvement of society, and his view has a "melancholy" hue, there being "dark tints" in the picture. In the latter he endeavors "to soften some

<sup>1</sup> 1st ed., p. 176; Economic Classics Series, p. 47.

<sup>2</sup> 1st ed., Chap. I; Economic Classics Series, p. 7.

of the harshest conclusions," and hopes he does not express any opinions concerning the future of society in which past experience does not bear him out. In the former he is to adduce facts in connection with a virtually new particular inquiry into the means by which population is kept to the subsistence level; in the latter he recognizes considerable previous thought on this phase of the question and proposes to pursue the subject to its consequences and draw practical inferences. Finally, he remarks, "I have so far differed in principle . . . as to suppose another check to population possible which does not strictly come under the head either of vice or misery." The new check was virtuous abstention or "moral restraint": "that sentiment, whether virtue, prudence, or pride, which continually restrains the universality and frequent repetition of the marriage contract."

Thus the revised edition of 1803 was softened or toned down, and became an attempt at more scientific accuracy. In the attempt, as has been often observed, his ideas lost much of their novelty; while they gained in truth.

That the admission of the new check greatly weakens his argument against the possibility of social perfectibility, will be observed. It still has some force against communism, however, for "moral restraint" normally rests upon private property. Communism, properly speaking, means the abolition of private property even in consumption, and the sharing of social income on some basis of absolute equality of needs or wants. Under such a system men as at present constituted could hardly feel the need for restraint so keenly as they do when their own property or income is at stake.

**The Malthusian Principle as Developed in Later Editions.** — 1. *Tendencies of Population and Subsistence.* — With the foregoing developments in mind, Malthus' complete doctrine on the subject of population, as he expounded it in his later editions, may now be better appreciated.

The essence of these editions may be expressed in the following words: a review of the different states of society in which man has existed shows that population has a con-



stant tendency to increase beyond the means of subsistence, and is kept to its necessary level by various positive and preventive checks, including "moral restraint."

This conclusion rests upon the "natural" operation of three factors:—

- I. Rate of increase (unchecked) of population based on sex instinct: Minimum = Geometric ratio.
- II. Rate of increase of subsistence: Maximum = Arithmetical ratio.
- III. Checks on the increase of population.

The first two might be combined and be termed the ratio of the increase of population to the increase of subsistence; or, for any given time, the ratio of population to subsistence. As to the first, Malthus says: "It may safely be pronounced therefore, that population, *when unchecked*, goes on doubling itself every twenty-five years, or increases in a geometrical ratio."<sup>1</sup> His use of an assumed rate of increase of food appears in the following words: "It may be fairly pronounced therefore, that, *considering the present average state of the earth*, the means of subsistence, *under circumstances the most favorable to human industry*, could not possibly be made to increase *faster* than in an arithmetical ratio."<sup>2</sup>

Evidently, Malthus' theory leaned heavily upon the force of sex instinct. This force he assumes to work continuously and universally: "The cause to which I allude, is the constant tendency in all animated life to increase beyond the nourishment prepared for it."<sup>3</sup> Evidently, too, he assumes that the working of sex instinct necessarily means offspring and increased population,—either these or "vice" and "misery." It follows that the increase in population, being determined by sex instinct, is assumed to be continuous and uniform. Consequently, population tends to increase beyond any limit outside sex instinct. The limit which Malthus centers attention upon is "subsistence," meaning food.

<sup>1</sup> Bk. I, Chap. I, 2d. ed.; present writer's italics.

<sup>2</sup> *Ibid.*, present writer's italics.

<sup>3</sup> *Ibid.*, p. 2.

He assumes that food is the one necessity, saying, "But as by that law of our nature which makes food necessary to the life of man, population can never actually increase beyond the lowest nourishment capable of supporting it; a strong check on population, from the difficulty in acquiring food, must be constantly in operation" (p. 3). Finally, the scheme is rounded out by concluding that a comparison of the unrestrained natural increase of population with the increase in subsistence under the most favorable conditions, will enable us to judge the force of the "tendency" of population to outrun subsistence.

The formula Malthus attempted to establish is often criticized as though the essence of the theory were dependent upon an arithmetical progression in the increase of food and a geometrical progression in the increase of population. This is not the case. The gist of the Malthusian doctrine is contained in the single sentence, "It is the constant tendency in all animated life to increase beyond the nourishment prepared for it." But the formula is often incorrectly given as follows: Population increases in a geometrical progression; the means of subsistence in an arithmetical. The disproportion resulting from the two different rates of increase must occasion wars, vice, and misery. ✓✓✓

This representation is to be found nowhere in the writings of Malthus. In his later editions he simply speaks of a tendency of population. He means that every increase of population augments the power to increase; and, *the desire to increase being assumed*, that the increase will take place unless certain restraints are called into operation. As to the possibility, this is simply a physiological fact. Supposing that other things are equal, — although Malthus does not say that they are so, — it is easier for a population of four millions to add a million to its number and become five millions than it is for one of one million to add a million to its number and become two millions. This is, it seems, essentially what Malthus meant by the statement that population has a tendency to increase in geometrical progression.

But how is it with the means of subsistence in so far as they depend upon the soil? — for agriculture as the source of raw material, and not manufactures, is of course referred to by Malthus in his law of population. Is the state of things here the same as it is in the case of population? Does every increase in the productive powers of land make it easier to augment still further its capability of production? Every farmer will tell you, no. If an acre of land which formerly yielded sixty bushels of potatoes is carefully improved until it produces eighty bushels, according to all experience it will not be easier to raise the crop from eighty to one hundred bushels than it was to bring it up to eighty from sixty bushels. It is not difficult to prove that it is not so easy. If a certain amount of care and labor will give a certain yield, *e.g.* of grain, and doubling that care and labor will double the yield and if three times that amount of care and labor will treble the yield, and so on, it is evident that no one would care to increase the size of his grain farm. If this were not true, then a farmer who might be raising one hundred and fifty bushels of wheat from five acres, but who might wish to raise fifteen hundred bushels, would simply be obliged to expend ten times the amount of care and labor on his five acres. This would be cheaper than buying forty-five additional acres of land, for fifty acres of land would require more work than the five had needed, and the farmer would have nothing to show for the money used in buying the forty-five acres. But, even allowing that it is just as easy to treble the original produce of land after it has been doubled as it was to double it, and just as light a task to quadruple the original yield as it was to treble it after it had been doubled, we then have only an arithmetical progression. That is what Malthus meant by saying that food cannot possibly be made to increase more rapidly than in an arithmetical ratio.<sup>1</sup>

<sup>1</sup> Cannan takes Malthus severely to task on the basis of his first edition. This seems quite unwarranted. To publish a series of parallel and coördinate criticisms dealing indiscriminately with statements in different editions is, especially in Malthus' case, unjust, to say the least.

2. *Diminishing Returns*.— This clearly implies a law of diminishing returns from land. Malthus says, "It must be evident to those who have the slightest acquaintance with agricultural subjects, that in proportion as cultivation extended, the additions that could yearly be made to the former average produce must be gradually and regularly diminishing."<sup>1</sup> And elsewhere, speaking of an accidental depopulation, he remarks: "The diminished numbers would, of course, cultivate principally the more fertile parts of their territory, and not be obliged, as in their more populous state, to apply to ungrateful soils."<sup>2</sup> "When acre has been added to acre till all the fertile land is occupied, the yearly increase of food must depend upon the melioration of the land already in possession. This is a fund, which, from the nature of all soils, instead of increasing must be gradually diminishing."<sup>3</sup>

The law was not stated or developed by Malthus in his essay, however, and remained with him as a tacit assumption. The first of the two preceding quotations suggests that he had in mind an average diminution and lacked the machinery of the margin.

3. *Checks to Population*.— Such being the nature of Malthus' teaching as to the relative tendencies of population and food supply to increase, it remains to analyze his "checks." If the cultivation of new lands and emigration do not afford sufficient means for counteracting the evil effects of the natural tendency of man to increase beyond the means of subsistence, and Malthus holds this to be the fact, what prevents overpopulation? The ultimate check is always to be found in the limitations on subsistence or food

<sup>1</sup> As a yearly increase this implies an historical "law" rather than the accurate statement which begins, "at any given stage of the arts." But elsewhere Malthus recognizes that agricultural improvement may offset diminishing returns. His error lay in minimizing the extent and continuity of such improvement and that in transportation. Cannan's criticism on this point (*Production and Distribution*, p. 144) seems rather superficial and hypercritical. The whole burden of Malthus' argument rests on a proportion between population and produce.

<sup>2</sup> 2d ed., p. 472.

<sup>3</sup> 5th ed., pp. 9-10.

supply. This ultimate check, however, never operates directly except in times of famine.<sup>1</sup> The immediate checks include all diseases due to scarcity of subsistence, and all causes prematurely weakening the body. For conciseness' sake the Malthusian checks may be tabulated thus:<sup>2</sup> —

I. Preventive; decreasing births:

1. *Moral Restraint*. Postponement of marriage, unaccompanied by irregular gratification.

2. *Vice*. Promiscuous intercourse, unnatural passions, violations of the marriage bed, improper acts. (If *misery* results, these are of a "mixed nature," and become partly positive in action.)

II. Positive; resulting in shorter life:

3. *Misery*.

(a) Wars and excesses of human origin. (As of human origin, a form of *vice*, but operating positively.)

(b) Disease, famine, and other evils arising unavoidably from the laws of nature.

In his list of positive checks, he included unwholesome occupations, severe labor, extreme poverty, bad nursing of children, city life, and the like.

By "checks" to population, Malthus apparently meant any means of adjusting population to subsistence: "It will be allowed, that no country has hitherto been known, where the manners were so pure and simple, and the means of subsistence so abundant, that no check whatever has existed to early marriages from the difficulty of providing for a family; and no waste of human species has been occasioned afterwards by vicious customs, by towns, by unhealthy occupations, or too severe labor. Consequently, in no state that we have yet known, has the power<sup>3</sup> of population been left to exert itself with perfect freedom." These "checks,"

<sup>1</sup> 5th ed., I, 17.

<sup>2</sup> Bk. I, Chap. II. Malthus himself does not specifically place checks "of a mixed nature" anywhere else than under the head "positive" (5th ed., I, 22). The author ventures in parenthesis to suggest what appears to be the logical conclusion.

<sup>3</sup> Note that "power" of population to increase is not a "tendency" to increase.

however, are very heterogeneous in their nature, and some of them have no relation to subsistence. When population is fortuitously swept off by war or disease, is this a "check"? Hardly so, in the sense that it has any necessary bearing on the relation between food and population. Is crowding in cities due to limited subsistence? No; nor does the difficulty of providing for a family necessarily arise from any difference in rates of increase in population and food. These things have no significance, in themselves, as part of a "principle of population." In short, some of the so-called checks which Malthus relies upon are really outside his scheme, as they act neither on sex instinct nor on food supply. Malthus admitted that certain customs and religious practices had operated to keep population down, and that without relation to food supply.

**Social Results: the Malthusian Cycle.** — Malthus maintained that no country ever had existed where morals and subsistence were such that population had been able to multiply with perfect freedom. In every country checks were operative, yet, as he very moderately stated, *there were few states* in which population did not constantly "strive" to exceed subsistence. This fact constantly tended "to subject the lower classes of society to distress, and to prevent any great permanent melioration of their conditions."

In the generality of old states, Malthus held, there existed an oscillation or vibration in the relation between population and food. Assuming an equilibrium in which subsistence is just enough for the easy support of existing population, the order of precedence, as he saw it, begins with an "effort" of population to increase. Then subsistence becomes more divided. As a result, the number of poor grows, and those already poor fall into deeper poverty. The price of labor falls, the number of laborers being out of proportion to the work in the market; the price of provisions tends to rise. Then the difficulties of rearing a family discourage marriage, and population is brought nearly to a stand. But cultivators are meanwhile induced to employ more labor,

and at last subsistence is brought up to a new equilibrium. Such was the normal and constantly recurring cycle. Malthus, however, admits that it was liable to irregularities on account of bad crops, new manufactures, greater or less spirit of agricultural enterprise, and emigration.

Malthus himself realized that the operation of his checks, as developed in the later editions of his work, did not necessarily mean great suffering. Speaking of the preventive check, he said: "If this restraint do not produce vice, as in many instances is the case, . . . it is undoubtedly the least evil that can arise from the principle of population . . . it must be allowed to produce a certain degree of temporary unhappiness; but evidently slight, compared with the evils which result from any of the other checks to population."<sup>1</sup> Moreover he gives a little weight to emigration and considerable to agricultural improvement as counterbalancing the retrogressive tendency for longer or shorter periods of time. Accordingly, though evil exists, it need not bring despair, but activity. "When it follows in its natural order," — note the implications, — an increase in population may be regarded as beneficial and necessary for increasing the output of the nation. Malthus considered the "principle of population" as necessary to stimulate men to industry and progress.

But what "activity" did Malthus suggest? Not that of government through emigration, industrial supervision, and the like; but purely individual action: "each individual has the power of avoiding the evil consequences to himself and society resulting from the principle of population."<sup>2</sup> This he might do by abstaining from marriage or any sexual intercourse until able to support a family. A major point in Malthus' theory was the idea that the postponement of marriage would increase the age at which marriages occur and reduce the number of children per marriage. And in an ideal society, too, no man whose earnings were only sufficient to maintain two children "would put himself in a

<sup>1</sup> Bk. I, Chap. II, 2d ed.

<sup>2</sup> Appendix to 5th ed.

situation" in which he might have to maintain four or five.<sup>1</sup>

Thus, by means of universal foresight, prudence, and virtuous abstinence, "all squalid poverty would be removed from society, or, at least, be confined to a very few, who had fallen into misfortunes against which no prudence or foresight could provide."

While the foregoing statement is nearly complete, we would be doing an injustice to Malthus, were we to overlook various other remedies, varying in permanence, which he admitted in the second edition of his work. As a temporary expedient, he conceded that poor relief, if not such as to breed dependence, might do more good than harm (p. 587). More permanent relief is to be secured by education, improvement of cottages, giving free use of small tracts of land, and the establishment of savings institutions. Education, he believed, would prevent a man from burdening society with children which he could not support.

**Other Economic Views.**<sup>2</sup> — In brief mention of the more important and characteristic economic views held by Malthus, his treatment of rent and the interests of landlords, of over-production, and of the measure of value should be noted. As will appear in the following chapter, he regarded rent as a surplus due to the bounty of nature, and thus in this differed with Ricardo. And a chief point is the distinction between rent and monopoly return, which he greatly emphasizes. Smith, Say, and others at points speak of the landlord as a monopolist reaping where he has not sown.

<sup>1</sup> Bk. IV, Chap. II, 2d ed.

<sup>2</sup> Other writings:—

*An investigation of the Cause of the Present High Price of Provisions, containing an Illustration of the Nature and Limits of Fair Price in Times of Scarcity.* 3d ed., 1800.

*A letter to Samuel Whitehead on his proposed Bill for the amendment of the Poor Laws,* 1807.

*Inquiry into the Nature and Progress of Rent,* 1815.

*On the Policy of Restricting the Importation of Corn,* 1815.

*Political Economy,* 1820.

*The Measure of Value,* 1823.

*Definitions in Political Economy,* 1827.



Malthus, however, takes them to task. To be sure, the extent of the earth is limited and there is a relative scarcity of the better lands, and so land ownership might be referred to as a "partial monopoly."<sup>1</sup> But for three reasons rent differs from the high price of a "common monopoly." First, and mainly, there is the quality of the soil, which enables it to yield a surplus over the amount required to maintain agricultural labor, or costs. This power is essential to rent, but is quite unconnected with monopoly. Secondly, the necessities of life which land yields have the peculiar quality, when properly distributed, "of creating their own demand, or of raising up a number of demanders in proportion to the quantity of necessities produced." The surplus has a power of "raising up a population to consume it," and in this, land is fundamentally different from any other machine. Finally, there is the comparative scarcity of fertile land. In "common monopolies," then, there is an "excess of price" over cost due to an external demand and depending upon the degree of monopoly; in the case of land the excess of price, or rent, "depends entirely upon the degree of fertility, natural or acquired."<sup>2</sup>

Accordingly, Malthus thought the interests of the landlords were not in conflict with those of society, save as to importation. He thought them not separated from other producers, apparently forgetting that the peculiar significance of land and the produce of land which he had just dwelt upon, might make a difference.<sup>3</sup>

As to overproduction, Malthus differed with the majority of his contemporaries in believing it possible as a general condition, his moral being that there are limits to parsimony or saving.<sup>4</sup> He was clearly in error. His discussion of the point consists of a series of criticisms on the reasoning of his opponents, Say and Ricardo, the windings of which we need not follow. Now he is begging the question by assum-

<sup>1</sup> *Political Economy*, 2d ed., p. 140.

<sup>2</sup> *Ibid.*, p. 147.

<sup>3</sup> *Ibid.*, p. 206.

<sup>4</sup> *Political Economy*, 2d ed., Bk. II, Chap. II, § 3 (pp. 106 ff.).

ing a fixed demand, now by assuming that an increase in demand must precede one in production, and ever and again he reasons aside from the point (*general glut*) by limiting the number of commodities in his illustrations. The service of such objections as these has been to prevent carrying the general over to the particular, and to call attention to the friction and delay often involved in the working out of economic laws.

In his first edition Malthus took a mean between corn and labor as his measure of value. This he finally abandoned, accepting Adam Smith's labor-exchange measure.<sup>1</sup> He suggested dropping the term "value in use"; distinguished between measure and cause rather clearly; and gave several good illustrations of the way in which the Classicists really took utility into consideration, though without elaborating the point (*e.g. Political Economy*, p. 51).

He follows Smith in retaining the distinction between productive and unproductive labor, but does it intelligently and with due definition. His discussion shows clearly the semi-ethical teleology of the classical economics.<sup>2</sup>

In addition to the weakness of his position on the subject of overproduction, the necessity for modifying Malthus' conclusion as to the peculiar power of an agricultural surplus to create a demand and raise up a population is not to be overlooked. Certainly the products of manufactures may be thought of as creating a demand in just the same way as those of agriculture. Indeed, a difference between the "machine," land, and other machines may exist in this regard as to degree, but there is none in kind, save that which may arise from the less elasticity of the demand for food. In a similar way Malthus' optimistic notion of the source of rent is one-sided, and, as will be seen, Ricardo took the other side.

**Critical Estimate of the Malthusian Doctrine.** — Despite the criticism and derogatory estimate of his contemporaries

<sup>1</sup> *Political Economy*, 2d ed., Preface, and pp. 68 f.

<sup>2</sup> *Ibid.*, pp. 34 ff.

and followers, Malthus' claim to importance as an original thinker is supported by most of the best present-day thought.<sup>1</sup>

But his errors are not few. Taking his most careful statement of the three factors in his problem *separately*, and considering them only as *tendencies* in the sense that they would be true if not interfered with, they stand. But Malthus sometimes puts them together and so states them that their character as mere potential tendencies is lost. Thus with the tendency of population to increase. The undoubted strain of pessimism his work holds leads him to underrate the future development of education and prudence. The power of a standard of living above subsistence is overlooked. Putting the ideas of checks and rate of increase together, and easily falling into too positive statement, the limitations and abstractions are forgotten. He knew what had happened; he saw what was happening; but, influenced by his surroundings, his vision as to what was to happen was unduly obscured.

It is difficult to determine to what extent this indicates a serious limitation of his powers, and consequently is an adverse criticism. It would appear most just simply to hold that, lacking later data, he was not in as good a position as are we to judge of the efficiency of moral restraint.

It has been suggested, too, that Malthus failed to distinguish between the desire for offspring, on the one hand, and that for sexual gratification, on the other. If the "passion between the sexes" to which he refers should solely or chiefly concern the latter desire, it might remain virtually unchecked without increase in population. It might be considered as a given quantity without fearing overpopulation. This is evidenced by the low birth rate, small average family, and almost stationary population of France to-day. It must not be forgotten, however, that the application of this

<sup>1</sup> Those inclined to belittle are Oppenheim, Ingram and Cannan, for instance; while, on the other hand, Cossa, Marshall, Taussig, Ely, Patten, Carver, Bonar, Price, Cohn, and Wolff (J.) are among those attaching great importance to his thought.

criticism may vary accordingly as we define the term "vice" under the preventive checks. Malthus' definition of "vice" was a broad one, and would largely cover the case suggested in this criticism. Indeed, he specifically states that "if we consider only the general term [preventive check] which implies principally a delay of the marriage union from prudential considerations, without reference to [moral] consequences, it may be considered in this light as the most powerful of the checks, which in modern Europe keep down the population to the level of the means of subsistence."<sup>1</sup>

Again, though this is not essential to his thesis, he has been criticized for a lack of breadth and foresight in his view of the possibilities of increased subsistence through improvements in agricultural science and transportation. Some have gone so far as to claim that progress in agricultural technique offsets the increase of population. But such would-be critics are apt to overlook the fact that while output per acre may increase, the cost may increase at a greater rate and consequently the output per unit of cost decrease. They are also given to pointing to the large population which now enjoys a better subsistence than ever before, as evidence of a breakdown in the Malthusian principle, not noticing that it has been the opening up of new sources of subsistence by improved transportation methods that has made this fortunate situation possible, — a condition which not only does not disprove the "tendencies" formulated by Malthus, but which cannot continue indefinitely. Moreover, it is easy to overlook the fact that he recognized that subsistence might increase indefinitely, and that his argument had as its essential merely a *different rate* of increase as compared with population. On this particular point, if more attention had been given to his ratio, and less to his separate rates, there would have been less misunderstanding.

Finally, when he puts his rates of increase in population and produce together, the fact that his idea of diminishing

<sup>1</sup> 5th ed., II, 218.

returns was limited, appears. Increased density of population has often acted to reduce costs and increase production by causing better division of labor and improvement in transport and organization of markets. These things, however, are after all but evidences of the "pressure of population" compelling steps to meet it: population and productive organization may each react upon the other, but population, "when unchecked," is the steady driving force. Certain it is that, whatever the organization or improvement, there must ultimately be some new space available for occupation by any steadily increasing population. Malthus' idea, therefore, appears to be substantially correct. The trouble, as one writer has felicitously expressed it, is that "he does not lay stress, at any rate with sufficient explicitness, on the limiting conditions of its application to fact."<sup>1</sup> He does not appreciate to the full the possible effects of an increase in population in maintaining or swelling the rate of increase in subsistence.

In these matters Malthus made too much of not being able to judge of the future except by the past.<sup>2</sup> There is a sense in which this is true, but such an attitude may lead to undue narrowness of view. In a word, to the extent that Malthus gave ground for thinking the law of diminishing returns an historical one, he was wrong. This is true, *on the whole*, of his first edition, alone. In the later ones he lapses into similar statements, but more and more guards himself.

It may truly be said that it is by taking the Malthusian theory as a whole, and considering population in relation to subsistence, that a true estimate of it is to be gained. Accordingly, when all has been said, the truest weakness of the theory lies in its omissions concerning the possibility of adjustments in the ideas of man in relation to subsistence.<sup>3</sup> (1) Subsistence is a relative thing and varies in

<sup>1</sup> Price, *Political Economy in England*, p. 49.

<sup>2</sup> See, e.g., Appendix to 3d ed.

<sup>3</sup> Note the materialism involved, and the fallacy.

quantity and quality according to standards of living. (2) Population may be checked by causes not connected with subsistence, or not proportional to it. Malthus recognized this fact, but treated it as a mere "exception." He admitted, for example, that an increase in subsistence, if it came to the well-to-do classes, might not cause increased population. But if this is true, how softened and contingent becomes his "principle of population"! Such an admission would turn the "principle" around and make population depend upon poverty. A part of population is poor; therefore, a part of population tends to multiply faster than subsistence!

Undoubtedly some of the shortcomings of Malthus' logic are to be condoned as being due to his effort to attain a concise and forcible statement, which may be considered a factor in the misunderstanding of his doctrine.

As one of the most important of Malthus' services the fact is to be mentioned that he was the first to devote a treatise to the principle of population. Thus he deserves great consideration for calling attention to the economic significance of an important subject which had been neglected. He gave the problem a definiteness and distinctness which made its significance tangible.

The Malthusian theory is important from the fact that it was partly instrumental in leading Darwin to his doctrine of Natural Selection. Darwin himself has said that his theory of the struggle for existence was only "the doctrine of Malthus applied with manifold force to the whole animal kingdom."

Furthermore, Malthus collected a mass of valuable facts illustrative of his doctrine. These were important as showing the effects of various checks and stimuli, — emigration, poor laws, various customs. They influenced legislation, on the one hand, and on the other, they give him a claim to a place among the founders of historical economics.<sup>1</sup>

The Malthusian theory is especially essential to an under-

<sup>1</sup> Marshall, *Principles of Economics*, 4th ed., p. 256, note.

standing of the problems of social reform. Thus John Stuart Mill was prevented from unreservedly advocating governmental interference with wages, of a highly Socialistic character, only by his belief in the theory of population which Malthus taught. If the difficulties Malthus saw are real, they must be reckoned with. If they are not, and the Malthusian doctrine is to be rejected, some other theory must be produced which will better explain the facts upon which Malthus based his reasoning, and which others have confirmed. The economist cannot go far without recognizing the tendencies with which Malthus dealt; and those attempts to solve the social problem which run counter to the principle of population must ultimately fail.

BIBLIOGRAPHICAL NOTE ON EARLY ENGLISH CONTROVERSIES CONCERNING THE POPULATION QUESTION (1803-1833)

Malthus' essay provoked much discussion, and numerous works were put forth attacking his thesis, while others rallied to its defense. There were "anti-populationists" or "subsistencians" (followers of Malthus), and "populationists" (his opponents). Some of the books of the day were as follows:—

- 1806: Jarrold (T.), *Dissertations on Man, Philosophical, Physiological, and Political; in answer to Mr. Malthus's "Essay on the Principle of Population."* The thought is optimistic, upholding Godwin, and proceeding from theological premises. Malthus' checks are held to "arise out of circumstances that are perfectly optional, and are most experienced under a bad system of government" (361). The most interesting point is his idea that anxiety and care lead to the extinction of those affected.
- 1807: Hazlitt (Wm.), *A Reply to the Essay on Population in a Series of Letters.* Published anonymously. This work argued that there is no limit to subsistence until the earth's surface shall be occupied and intensive culture resorted to.
- 1815: Gray, *Happiness of States.* "In all ordinary circumstances population has a tendency to increase, but not to over-increase; for this increase carries in itself the power of fully supplying its various wants." Population regulates subsistence.
- 1816: Weyland (John), *The Principles of Population and Production, as they are affected by the Progress of Society; with a view to moral and political consequences.* Argues from theological

premises, the Malthusian principle running counter to the idea of a benevolent creator (p. 6). The natural tendency of population varies with the state of society. Naturally, it tends to keep within the limits set by the powers of the soil, only exceeding them through impolitic laws and customs. Some measure of excess is beneficial, as it stimulates progress.

1816: Grahame (James), *An Inquiry into the Principle of Population, including an exposition of the causes and the advantages of a tendency to exuberance of numbers in society.*

1818: Purves (G.), *The Principles of Population and Production investigated; and the Questions does Population regulate Subsistence, or Subsistence Population.....discussed.* "Purves" was a *nom de plume* adopted by Gray, who published a book in 1815. "The notion of a constant tendency in subsistence to increase less rapidly than population, and consequently to check the latter by scarcity, is a wild fancy, utterly unknown to nature, and in as direct opposition to the results of her arrangements, as any such tendency in clothing, building, or any other division of the supply" (68). Scantiness of subsistence tends to increase births, superfluity to diminish them. Abundance of untouched means existing in old countries refutes Malthus. Population has no natural ratio of increase, when compared with time. While the ratio of increase of subsistence is impressed upon it by the cultivator.

1818: Ensor (George), *An Inquiry concerning the Population of Nations, containing a refutation of Mr. Malthus's Essay on Population.* Advocates political reforms as the remedy.

1820: Godwin (Wm.), *Essay on Population.* Contains an essay by Booth on Malthus' ratios, which purports to refute Malthus' use of ratios of increase. Malthus' American statistics are criticized. Godwin argued that history shows population has not decreased in many states; and that in Sweden, where conditions are favorable, population doubles but once in 100 years. Each new improvement makes a new start by placing population and subsistence rates on a new level of equality. Any excess of population comes in the shape of infants, which serves as a warning and enables adaptation. Moreover, each man has within him the power to produce more than enough for his subsistence. He lays any suffering due to overpopulation at the door of political facts.

1821: Ravenstone (P.), *A Few Doubts as to the Correctness of Some Opinions Generally Entertained on the Subjects of Population and Political Economy.* The tendency of population to increase is nearly equal in all times and places, and is not so



rapid as Malthus thinks. No restrictive measures are needed, for subsistence depends upon numbers. In arguing that rates of increase are independent of social institutions he also undertakes to refute Godwin's arguments.

1822: Place (Francis), *Illustrations and Proofs of the Principle of Population: including an examination of the proposed remedies of Mr. Malthus, and a reply to the objections of Mr. Godwin and others*. Through a study of immigration to America Malthus' conclusions as to the rate of increase in population in that country are substantiated. Place himself emphasizes education as a remedy.

1823: Everett (A. H.), *New Ideas on Population*. Increase in population brings its own remedy in increased productivity through division of labor and increased skill.

1830: Sadler (Michael T.), *The Law of Population; a Treatise in Six Books; in disproof of the superfecundity of human beings, and developing the real principle of their increase*. Attempts a refutation of Malthus by statistics. Theological premises. His "law" was that prolificness varies inversely with numbers, the controlling force being space, modified by the character of the land.

1831: Senior (Wm. N.), *Two Lectures on Population* (Oxford). Senior upholds Malthus. He emphasizes security, freedom of internal and external trade, equal social and industrial opportunity, and education. "These are propositions which Mr. Malthus has established by facts and reasonings, which, opposed as they were to long-rooted prejudices, and assailed by every species of sophistry and clamour, are now so generally admitted, that they have become rather matters of allusion than of formal statement" (p. 50). Senior appends letters from Malthus explaining that by "tendency" he does not necessarily mean an actuality.

1832: Anonymous, *An Enquiry into the Principles of Population, exhibiting a system of regulations for the Poor, designed immediately to lessen and finally to remove the evils which have hitherto pressed upon the Labouring classes in Society*. Better adjustment of labor needed. Possibilities of chemistry in producing subsistence noted.

1832: Owen (Robt. D.), *Moral Physiology, A Brief and plain Treatise on the Population Question*. "Neo-Malthusian" — artificial restriction of size of families.

1833: Lloyd (W. F.), *Two lectures on the checks to population*.

For Carey's criticism see below, page 290. For those of Sismondi and Messedaglia, see pages 363, 585. The discussion was also

carried on in other countries. Most of the criticism of Malthus was either beside the point, because his critics did not understand his principle with its several limitations and qualifications, or was vitiated by irrational theological premises.

## CHAPTER XII

### RICARDO AND THE THEORY OF DISTRIBUTION, ESPECIALLY THE RENT DOCTRINE<sup>1</sup>

**Life and Circumstances; Chief Writings.** — David Ricardo was born in 1772, in England. His father, a Hebrew immigrant from Holland, was then a member of the London Stock Exchange. His ancestors were Portuguese Jews, a remarkable branch of a remarkable race. Spinoza, the philosopher, and Isaac Pinto, a publicist, came from the same stock. The boy received some commercial education, and at fourteen began his acquaintance with the Exchange.

Becoming involved in religious difficulties, he finally embraced Christianity, and was cast off by his father. At twenty-one he began business on his own account, became a member of the Stock Exchange, and at twenty-five had already acquired a fortune. Coolness, good judgment, surprising quickness at figures and calculation, and a great capacity for work were factors in his success.

Having acquired a competence, Ricardo began to interest himself in science. He first took up mathematics, chemistry, and geology; but, in 1799, his attention having been drawn to economic studies by a perusal of the *Wealth of Nations*, he came to devote himself chiefly to political economy.

His first publication was a tract entitled *The High Price of Bullion a Proof of the Depreciation of Bank Notes*.

<sup>1</sup> On Ricardo and his work, cf. Patten, "Malthus and Ricardo," *American Economic Assoc. Publications*, 1889; Hollander, "Development of Ricardo's Theory of Value," *Quart. Jr. Econ.*, 1904; *American Economic Association Papers*, 1911 (Proceedings of Annual Meeting, St. Louis, 1910); Diehl, *David Ricardo's Grundsätze der Volkswirtschaft und Besteuerung* (Leipzig, 1905); Hollander, *David Ricardo*, Johns Hopkins University Studies, 1910, and the following footnote references.

Appearing early in 1810, it passed through four editions in two years, and its principles were adopted in the Report of the Bullion Committee. When Mr. Bosanquet, a prominent merchant, criticized these principles, Ricardo was induced, in 1811, to write a *Reply to Mr. Bosanquet's Practical Observations on the Report of the Bullion Committee*. This reply is called by M'Culloch "one of the best essays that have appeared on any disputed question of political economy." It was followed by two tracts or essays: *Essay on the Influence of a Low Price of Corn on the Profits of Stock* (1815), and *Proposals for an Economical and Secure Currency* (1816).

In 1817 he published his chief work, *On the Principles of Political Economy and Taxation*. Although it made a real epoch in economic thought, it was only with great reluctance and after considerable persuasion on the part of his friends that he consented to bring it before the public. He had already acquired some reputation, and it has been said that he feared this work would not sustain it. If this was the case, he was most happily disappointed. A second edition appeared in 1819, and a third in 1821.

His other important economic publications were "The Funding System," an article contributed to the *Encyclopædia Britannica* in 1820, and a pamphlet on *Protection to Agriculture*. It appeared in 1822, and is called by M'Culloch, who was, of course, a warm admirer, "the best of all his pamphlets and indeed a 'chef-d'œuvre.'" M'Culloch adds, "Had Mr. Ricardo never written anything else, this pamphlet would have placed him in the first rank of political economists."

A manuscript describing a *Plan for the Establishment of a National Bank* was published after Ricardo's death, which occurred in 1823.

Ricardo was for some time a member of the House of Commons, to which he was elected in 1819, to represent Portarlington. He was an independent in politics, but was generally found on the side of progress and reform. He

did not, however, take as active a part in Parliament as might have been expected. He never spoke upon any subject to which he had not given long and careful study, and was regarded as an authority by many, his opinions being highly valued. Lord Brougham describes him as a persuasive speaker on account of the apparent sincerity and purity of his motives and by reason of the clearness and force of his arguments.

In his private relations, he was kind and charitable, and made a generous use of his wealth. Besides responding largely to appeals made in behalf of other institutions, he supported entirely out of his own pocket two schools and an almshouse.

Some of the differences between the industrial environment of Adam Smith and that of his followers have been touched upon in the chapter on Malthus. There the growth of population and attendant poverty were noted. In connection with Ricardo and his time, it is particularly noteworthy that there had come a completer working out of the results of the Industrial Revolution, and a rise in grain prices, accompanied by a resort to poorer soils and higher rents. The first factor meant a more capitalistic industry. Old restrictions and regulations became obsolete and began to be repealed, and for a time competition was given nearly full sway. Old labor laws were repealed, and the trade-union problem grew apace. The rise of new industries, the expansion of trade, the Napoleonic wars, begot change and mobility which were notable in contrast with the past. At the same time, rising prices for food brought on corn law discussions, and the manufacturing classes, desiring cheap food for cheap labor, were arrayed against the landowners.

In such an atmosphere, the question of the distribution of wealth could hardly sleep. What was the cause and what the remedy for high food prices and rents? How should wages be determined, and what would be the effect of labor organization? Upon what class should taxes rest? How would all these questions affect the profits of the capitalist

class? Such were the problems of the day. The economist can see now that the time was pregnant with a theory of distribution, which, assuming competition, would center round the margin of land cultivation. In the hands of a thinker like Ricardo, a Jew and a man of the Stock Exchange, such a theory would be given an abstract and absolute setting.

*The Principles of Political Economy.* — *Value.* — In the first line of his first chapter, Ricardo quotes Adam Smith, and proceeds to follow him in distinguishing value in use from value in exchange. The latter is the value treated in political economy. Utility is not the measure (determinant) of "exchangeable" value, though it is "absolutely essential to it." Natural value is distinguished from that of the market, being not temporary and fluctuating, as the latter, but that which would exist if there were no disturbance. It is always of this "natural" or normal value that Ricardo speaks. Thus far, then, Ricardo follows Smith. /

Assuming their utility,<sup>1</sup> he next divides commodities which have an exchange value into two classes: those which derive it from scarcity, and those which derive it from the quantity of labor required to obtain them. A picture by Raphael would belong to the first class. Its value would be altogether irrespective of the labor it had cost, and would depend only on what people could or would give. The class is, however, so limited in extent that Ricardo leaves it out of consideration, and devotes his attention to commodities of the second class: those which are "procured by labour" and which may be multiplied according to desire "without any assignable limit."

Adam Smith had explained that in the early stages of society preceding the appropriation of land and accumulation of capital, the relative values of such things depended upon the quantities of labor expended in procuring them.

<sup>1</sup> Ricardo said utility is "absolutely essential," but saw in it no means of measuring or determining values. To him, an analysis of sellers' costs was most important. ~~He had no distinct concept of marginal utility.~~

In this Ricardo agrees with Smith, but differs in maintaining that even after land has been appropriated and capital applied to industry,<sup>1</sup> relative values depend upon the quantities of labor required, the same as before. In our present social organization, Smith thought that other elements than labor affect the comparative value of commodities; he found it influenced by wages, profits, and rent. But Ricardo maintained that the rates of wages, profits, and rent exercise no influence on normal relative or exchange values. Regardless of the truth or error of this position as a positive contribution, it was undoubtedly an important clarification of Smith's position. M'Culloch even claimed that to have demonstrated that the quantity of labor required to produce a good is not identical with the quantity of labor for which the good will exchange, and that the former quantity is the true basis of value, was one of the greatest improvements made in the science.<sup>2</sup>

✓ Profits are equalized in all industries, Ricardo held, and hence could not affect relative values; while rent is a result, not a cause, of values.

Wage rates do not affect general relative values, because they, like profits, are the same in different employments. Perfect competition is assumed, with the corollary that the same price is paid for the same kind of labor by all employers. So long as A and B pay the same sum for a day's work of the same kind, it is manifestly indifferent whether the sum be \$1 or \$10: both are affected alike by the rate of wages.

But if I offer to exchange with you a commodity on which five days' labor has been expended for one which required ten days' labor, you will object that the commodity I offer is worth only half yours, because it cost but half the labor. ✓ Difference in *quantity of labor*, then, causes difference in value.

In this conclusion Ricardo takes some account of different

<sup>1</sup> Indeed, Ricardo taught that capital of some sort had coöperated with labor from earliest times.

<sup>2</sup> *Principles*, part 3, § 1.

qualities of labor; but argues with much obscurity that "the estimation in which different qualities of labour are held comes soon to be adjusted in the market," while, in case the same commodity is concerned, he assumes that variations in quality of labor between different times may be disregarded, — a questionable assumption.<sup>1</sup> This much can be said: Ricardo recognized that in comparing quantities of labor time, allowance must be made for difference in intensity and skill. His mistake lies in the extreme and impractical abstractness of an assumption of equality of labor,<sup>2</sup> a mistake which was later to be made the basis for a theory of value by the Socialists.

What has been said of labor in general applies equally to the labor employed in the production of capital. That is, capital is apparently reduced to stored-up labor. The "exchangeable" value of commodities in modern society, then, is in proportion to the labor spent not only on their immediate production, "but on all those implements or machines required to give effect to the particular labour to which they were applied."

It might thus seem that Ricardo, taking a step which Smith's common sense had shunned, and following along the road indicated notably by certain Mercantilists,<sup>3</sup> had adopted a pure labor-cost theory of value. Such was doubtless his tendency. He was compelled, however, to introduce several modifications, and finally to abandon this theory in its purity.

While reducing capital goods to terms of labor, Ricardo reaches the conclusion that difference in durability of capital may also allow value changes, quantities of labor being equal. Such differences, by introducing a varying time element, make it possible for changes in wages and profits to affect costs in different industries unequally, and therefore to affect relative values. The less durable fixed

<sup>1</sup> Cf. Whitaker, *Labor Theory of Value*, Columbia University Studies, XIX, No. 2, pp. 47 f.

<sup>2</sup> See Jevons' criticism, *Theory of Political Economy* (1871), p. 160. Cf. the criticism of Marx, below, pp. 447, 450.

<sup>3</sup> See above, p. 120.



capital approaches the nature of circulating capital. If the machine, for example, is very durable, the value of its product will be less affected by changes in wages and profits than one which soon has to be replaced.<sup>1</sup>

While the mere introduction of capital does not affect relative values, according to Ricardo the existence of differences in the proportion of fixed and circulating capital in different industries does affect relative values and modify his labor-cost theory.<sup>2</sup>

In a word, in treating of the results of the introduction of machinery, etc., even though regarding it as "canned" or "petrified" labor, Ricardo admits that his assumption of equalized wages and profits breaks down, and with it goes the argument against the entrance of wages and profit into values.

Considering all modifications and utterances in his correspondence, the most just way to put Ricardo's doctrine, then, is as follows: assuming perfect competition, and considering only those commodities which can be indefinitely increased, the quantity of labor involved makes the only practical basis for comparing normal values. The idea of mere labor quantity, however, is somehow to be modified by recognizing the qualitative element, skill and intensity being considered. While normal value does not equal labor cost, the entrepreneur's expenses are substantially proportionate to the quantity of labor he uses. The payment of interest of different rates causes an almost negligible variation. He had great misgivings concerning his value theory;<sup>3</sup> but held to it to the end.

Finally, in a note to the third edition of his *Principles*,

<sup>1</sup> Chap. I, § 5. For a good discussion of this matter see Whitaker, *History and Criticism of the Labor Theory of Value*, Columbia University Studies, XIX, No. 2, pp. 52-56.

<sup>2</sup> Chap. I, § 3. A rise in the wage rate would bring a fall in the interest rate. At the lower interest rate, fixed capital represents the present value of a smaller annuity. Fixed capital, then, could be replaced more cheaply. Under perfect competition the value of its product falls, and the more fixed capital in proportion to circulating, the greater the fall.

<sup>3</sup> *Letters of Ricardo to M'Culloch*, p. 132.

page 46, he virtually admits that profits — that is, interest — is a cost of production. And in various letters to economist friends, he shows the same admission in more or less explicit form. To Malthus, who combated his theory, he confessed that it was not strictly accurate, but maintained that so far as he could see it came nearest the truth, as a measure of exchange value; while he wrote to M'Culloch, who believed as he did, that he often thought that were he to rewrite his chapter on value he would admit two factors: the quantity of labor, and the rate of profit which existed during the round of production.

Ricardo seems to have thought an unvarying standard or measure of value very desirable, but deemed it impossible; for he believed that there is no commodity which requires an unchanging quantity of labor for its production. If there were, differences in the periods for which capitals are advanced would invalidate it. But he found so little change in gold and silver that he took money to be stable enough in its value for ordinary purposes. Toward the end of his career he more and more argued for the substantial validity of such a standard.<sup>1</sup>

“*Value*” and “*Riches*.” — While he made the phenomena of exchange value the chief object of his study, Ricardo was far from being blind to the difference between “wealth” and “welfare.” Indeed, how could he have been, familiar as he was with the work of Lauderdale? No one has more clearly expressed the difference or even conflict between the individual and social points of view with regard to the production and distribution of wealth than has the father of the Classical School’s theory of distribution, and one should not claim to know Ricardo until one has read Chapter XX of the *Principles*, in which “value and riches” are discussed. There he states that value differs essentially from riches, in that it depends upon the difficulty of production, not upon abundance. By increasing the ease of production we de-

<sup>1</sup> Hollander, “Development of Ricardo’s Theory of Value,” *Quart. Jr. Econ.* XVIII.

crease values, but add to the "national riches" and to the power of future production. In close connection with a reference to Lord Lauderdale, he wrote the following paragraph:—

"It is true, that the man in possession of a scarce commodity is richer, if by means of it he can command more of the necessities and enjoyments of human life; but as the general stock out of which each man's riches are drawn, is diminished in quantity, by all that any individual takes from it, other men's shares must necessarily be reduced in proportion as this favored individual is able to appropriate a greater quantity to himself."

Ricardo expressly refers to this distinction as one, the failure to recognize which has been the source of many errors in Political Economy.

Distribution.—The whole Ricardian scheme of distribution is put in a nutshell in his own words, thus: "Profits depend on high or low wages, wages on the price of necessities, and the price of necessities chiefly on the price of food."<sup>1</sup> The exchange value of food depends on the labor cost of producing it at the margin; in the long run wages tend toward a minimum set by this exchange value of food. Profits get the remainder of the marginal product. But wages and profits are equalized by competition. On more productive land, then, rent arises. Thus is the total product of industry distributed.

How then are the various shares determined?

Rent.—Ricardo's whole theory of distribution, including value, was inseparably bound up with the land factor and its margin of cultivation. He was not the first to have some idea of rent as a differential return. He was not the first to have some understanding of diminishing returns. But he was the first to bring these things into relation with his economic theory as a whole, and in the Ricardian economics the land margin occupies the center of the stage.

The Ricardian law of rent embraces two ideas or complementary phases: a resort to inferior soils and an extensive margin; and a law of diminishing returns leading to an

<sup>1</sup> *Principles*, Chap. VI, p. 123, 2d ed.

intensive margin. James Anderson, long reputed the originator of the rent theory, had at most grasped but one phase, the extensive margin; as late as 1801 he seems to have believed that increasing returns reward more intensive culture of lands already in use.<sup>1</sup> And in the first edition of his *Essay on Population* (1798) Malthus made no statement of a law of diminishing returns. It was one of the fundamentals of his theory, however, and in the second edition it appears clearly.<sup>2</sup> But it was not combined with the other phase to make a rent theory. Some trace of such a development, indeed, appears in his *Observations on the Effects of the Corn Laws* (1814),<sup>3</sup> but it was not until the middle of this year that the celebrated *Parliamentary Reports respecting Grain and the Corn Laws* were published, clearly pointing to a relation between rising grain prices and lower margins of cultivation, both intensive and extensive.

A few months later and almost at the same time three men took the step of clearly coördinating the two margins:<sup>4</sup> Malthus in an *Inquiry into the Nature and Progress of Rent*, and *Grounds of an Opinion on the Policy of Restricting the Importation of Foreign Corn*; Sir Edward West in an *Essay on the Application of Capital to Land*; and Ricardo in his *Essay on the Influence of a Low Price of Corn*. Though

<sup>1</sup> See *Recreations in Agriculture, Natural History, etc.*, Vol. IV, p. 374. Cited by Cannan, *Production and Distribution*, p. 145. See Hollander, "The Concept of Marginal Rent," *Quart. Jr. Econ.* IX, 179. On Anderson see Brentano (L.), *James Anderson: Drei Schriften über Korngesetze u. Grundrente*, Leipzig, 1893. Anderson takes a series, A, B, C, D, E, F, representing different grades of land. Price determines rent. If price drops below cost on F, that land is abandoned, assuming society can get enough without it. Rent is the premium on cultivating superior soils. (*Inquiry into the Nature of the Corn Laws*, 1777.)

<sup>2</sup> Above, p. 200.

<sup>3</sup> Hollander, "The Concept of Marginal Rent," *Quart. Jr. Econ.*, IX, 180.

<sup>4</sup> Colonel Robert Torrens should be mentioned here. His *An Essay on the External Corn Trade* appeared early in 1815, stating the law of rent, in so far as an extensive margin is concerned, very clearly and quite independently of Malthus or West. Perhaps John Rooke was the first to suggest the rent doctrine. Though his *Principles of National Wealth* did not appear till 1825, the suggestion of the theory appeared in a series of articles in *The Farmer's Journal* during 1814 and 1815, especially February, 1815. (See Seligman, "Some Neglected British Economists," *Econ. Jr.*, XIII, 511 f.)

his *Essay* was the last, Ricardo had suggested the step in a letter to Malthus;<sup>1</sup> and he so made the idea his own that there is a large element of truth in the phrase "Ricardian law of rent." In his *Principles* the full theory appears.

Adam Smith and the Physiocrats, as has been seen, regarded rent as a gift of nature, and as consisting in that part of the produce of land which, after deducting the wages of labor and profits of capital, is received by the landlord. They, however, did not attempt to determine precisely what rent different landlords would receive. Ricardo was in a position to develop their ideas on this subject. Rent he defines as "that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil." It "invariably proceeds from the employment of an additional quantity of labour with a proportionally less return."<sup>2</sup>

Accordingly the portion of the landlord may be discovered by considering the successive steps by which the land of a country is brought under cultivation. So long as the best land is abundant and every one can have it by taking possession, it is manifest that there can be no such thing as rent. As population grows and the needs of the people become greater, however, the best land is gradually taken up until none remains. It is now necessary to have recourse to land of an inferior quality, which may be called land of the second class. Now those who have already taken possession of land of the first class have a manifest advantage over those who are obliged to take up land of the second class. Land of the second class must pay the wages of labor and the ordinary profits of capital, or it would not be cultivated. But land of the first class does this and something more. This something more constitutes the rent of the landlord: the farmer can give him so much and still receive the usual rate of profits and pay the wages of his labor. In the course of time, it becomes necessary to culti-

<sup>1</sup> Letters of Ricardo to Malthus, ed. by Bonar, p. 47. Oct. 23, 1814.

<sup>2</sup> *Principles*, Chap. II, 2d ed., pp. 47, 55.

vate land of a still poorer quality, land of the third class. As profits on capital must be equal as well as wages, according to Ricardo, and as this poorer quality of land must pay profits and wages, land of the second class can pay a rent which is equal to the difference between the value of its produce and that of the poorest land under cultivation. Land of the first class pays a higher rent, equal also to the difference between the value of its produce and that of land of the third class.

This leads to the following conclusion: "With every step ✓ in the progress of population, which shall oblige a country to have recourse to land of a worse quality, to enable it to raise its supply of food, rent on all the more fertile land will rise," and will always be equal to the difference between the produce of a given quantity of capital and labor on the more fertile land and the poorest.

It often happens, however, that additional capital will be ✓ applied to land already in a state of cultivation instead of taking up new land, which event "will equally create a rent." Suppose that a given amount of capital and labor produces on the best land one hundred quarters of wheat, and that doubling the capital and labor would produce eighty-five additional quarters. The additional investment would be made if land of the next lower quality would not produce eighty-five quarters when the same amount of capital and labor is applied to it. The landlord would receive here the difference between the most and the least productive employment of labor and capital, or fifteen quarters. "In this case, as well as in the other, the capital last employed pays no rent."<sup>1</sup>

It follows, of course, from the foregoing that rent, as such, has no direct effect on prices, for they are determined by cost of production on the land which pays no rent. If contract rent<sup>2</sup> were abolished, the cultivators of the more

<sup>1</sup> *Principles*, Chap. II, 2d ed., p. 54.

<sup>2</sup> It is conducive to clearness to keep the distinction between pure economic rent and contract rent in mind. The latter is the rent paid by a tenant to the land-

fertile soils would take possession of the wealth of the landlords, but no other class of society would receive any benefit by its abolition.

Toward the close of the chapter Ricardo discusses the effect of improvements on rent, concluding that, inasmuch as they diminish inequality in the produce of portions or units of capital employed on land, they tend to reduce rents. Improvements, however, are of two sorts, and do not affect rent equally. Those which, like better fertilization, enable us to obtain the same produce from a smaller quantity of land, and so tend to raise the margin through a withdrawal of the worst land from cultivation, lower both corn and money rents. On the other hand, improvements in agricultural machinery, etc., may simply lead to the production of the same quantity on the same lands at a lower cost, thus reducing money rents, but leaving corn rents unaffected. If the latter improvement leads to a readjustment of investment, however, so that a larger proportion of a given capital is applied to the better land, both corn and money rents will be affected.

The landlord is benefited by difficulty of production. The farther down in the scale the increase of population forces cultivation, and the higher the price of provisions, the greater his gains. His advantage is thus opposed to that of the rest of society, — another view with a pessimistic tendency.<sup>1</sup>

Ricardo and Ricardians were ere long to have some aspects of their rent doctrine criticized<sup>2</sup> on the ground that they

owner, and may be more or less than the economic rent. Contract rent can be abolished; but economic rent, existing in the nature of thought, must exist wherever there are investments on land which yield different returns per unit.

<sup>1</sup> On the other hand, a certain note of optimism born of the possibility of increasing returns in manufactures may be noted. In Chap. V, "On Wages," he wrote: "The natural price of all commodities, excepting raw produce and labour, has a tendency to fall, in the progress of wealth and population;" for the rise in price of raw material is "more than counterbalanced by the improvements in machinery, and by the better division and distribution of labour, and by the increasing skill both in science and art, of the producers."

<sup>2</sup> By Carey in America (below, pp. 287 f.), Torrens in England, and Von Thünen in Germany. The first was most sweeping; the two last merely *emphasized* the situation element. Samuel Read in his *Natural Grounds of Right to Vendible Property or Wealth* (1829) also criticized Ricardo.

assumed an order of cultivation in which men took the most fertile lands first and proceeded to less and less fertile ones, which is not always the fact. But Ricardo's statement is this: "The most fertile, and most favourably situated land will be first cultivated." While the unwary reader may easily get the impression that fertility alone is considered, this is not the case. The situation element is recognized. If all lands were equally fertile, there would be no rent, "unless where it possessed peculiar advantages of situation," says Ricardo. In any case, of course, the criticism bears only upon the movement of rent as an historical fact, which is not the essence of the theory.

Assuming that the movement was from better to worse soils, — as, indeed, it is, *all* things considered, — Ricardo took the pessimistic view that rent is not the result of the generosity of nature but of her niggardliness. If there were an unlimited supply of equally productive land, as there is of sunshine and water, there would be no rent. "Nothing is more common," says Ricardo, "than to hear the advantages which land possesses over every other source of useful produce, on account of the surplus which it yields in the form of rent. Yet when land is most abundant, when most productive and most fertile, it yields no rent, and it is only when its powers decay, and less is yielded in return for labour, that a share of the original produce of the more fertile portions is set apart for rent. It is singular that this quality in the land, which should have been noticed as an imperfection, compared with the natural agents by which manufactures are assisted, should have been pointed out as constituting its peculiar preëminence."

Malthus, starting with early society, when poor tools and often the less fertile soils were used, pointed out that then population was checked by scanty food. With civilization came improved processes and implements, increasing the produce. The tendency of population to outrun subsistence, however, keeps prices up, and therefore rent increases. But it is not a deduction from other shares. It is the result of the bounty of nature.



Ricardo, on the other hand, takes the England of his day. He sees cultivation extended to poorer soils, and more intensive culture. At the same time rents are increasing and profits decreasing. He concludes that rent is a deduction from the other shares in distribution, and is due to the niggardliness of nature.<sup>1</sup>

In criticizing the Ricardian theory of rent, one must keep distinct the theory, as such, and any deductions about social classes and historical movements. Two men might uphold the theory while maintaining different views on the latter subjects, as did Malthus and Ricardo. The rent theory proper stands to this day, the result of nearly a century of criticism having been a more careful and limited formulation and a less absolute statement of its unique character. Thus the word "indestructible" as referring to the powers of the soil has been dropped as being misleading. So far as fertility is concerned, the power of land may be destroyed and replaced in a sense somewhat similar to that in which things are "manufactured."<sup>2</sup> Yet there are certain elements that go with land, like climate, which in the present state of the arts can neither be destroyed nor made; while, in general, the destruction and making of any land element takes place with such unequal facility as to make those relatively permanent inequalities which are essential to the rent theory. That differentials similar to land rent are widespread, both in labor and capital payments, has been pointed out. These have been called "quasi rents," but lack the permanence and generality of land rents. Then there are those, beginning with Mill and Jevons, who attack the idea that land rent is unique in character, and maintain that under certain exceptional conditions rent enters price. Richard Jones, in an *Essay on the Distribution of Wealth*,<sup>3</sup> criticized Ricardians because at various times and places

<sup>1</sup> See Patten, *Malthus and Ricardo*, American Economic Association Publications, 1889.

<sup>2</sup> Yet even here the question may be raised if the difference in degree does not constitute a difference in kind, as so often happens in economics.

<sup>3</sup> London, 1831.

the principles laid down by Ricardo did not seem to apply in the case of peasants' rents. But again this only shows that, competition being limited by custom, the full economic rent was not exacted. This may be true to-day, but does not affect the Ricardian theory proper.<sup>1</sup>

*Wages.*—Rent being measured from the worst investment on land, where wages and profit alone are paid, Ricardo must next inquire what determines these payments. Following along the easy course indicated by the Physiocrats and Adam Smith, he adds the Malthusian principle, and the result is his so-called iron law of wages, *das eiserne Lohn-gesetz*, as Lasalle called it. The theory was virtually formulated by Torrens in 1815.<sup>2</sup> It is this: "The natural price of labor is the price which is necessary to enable the laborers, one with another, to subsist and to perpetuate their race, without either increase or diminution." It was this natural or necessary price that chiefly concerned Ricardo.

Now labor, he would have said, is a commodity, and may be increased or diminished in quantity like other commodities. In an advancing state of society, the market price will be above the natural price and may continue so for a long time, but early and frequent marriages and large families will produce all the labor required and reduce it to its natural price eventually. In a declining state of society, on the other hand, labor would sink below its natural price, and the supply would diminish on account of frequent deaths, few marriages, and small families. This is substantially the view to be found in the writings of Turgot and

<sup>1</sup> For full discussion of various criticisms see Diehl, *Ricardo's Volkswirtschaft und Besteuerung* (Leipzig, 1905), Vol. II, pp. 199 ff.

<sup>2</sup> Ricardo was undoubtedly influenced in his statement by Torrens' *Essay on the Corn Trade*, which contains the following passage: "The proper way of regarding labour is as a commodity in the market. It therefore has . . . its market price and its natural price . . . its natural price . . . consists in such a quantity of the necessaries and comforts of life, as from the nature of the climate and the habits of the country are necessary to support the labourer, and to enable him to rear such a family as may preserve in the market an undiminished supply of labour" (p. 62). Ricardo himself says: "The whole of this subject is most ably illustrated by Colonel Torrens."

Adam Smith, though the earlier thinkers did not formulate the law with the same precision.

But what forces make wages rise in an advancing state? What sets a maximum? What forces cause them to fall again? To just what level?

The market rate of wages, Ricardo thinks, may, in an improving society, be above the natural or normal rate for an "indefinite period." This will be due to an increase in capital, by capital in this case meaning chiefly food and clothes; "for in proportion to the increase of capital will be the increase in the demand for labor."<sup>1</sup> Where there is an abundance of fertile land, the productive power of labor is high, and the accumulation of capital, which depends upon that power,<sup>2</sup> may be more rapid than the growth of population. Accordingly "the price of labor" rises.

But the increase of capital is limited by the productiveness of labor on land. As population increases, poorer investments on land must be made, and the return to capital being decreased, the demand for labor slackens. This brings the rise in wages to a halt. Ricardo sets no definite maximum point; save that in the chapter on profits he states that at the margin wages cannot rise so high as to deprive capital of all profit.<sup>3</sup>

"In the natural advance of society," however, wages have a tendency to fall. Real wages do so because demand decreases relatively to supply; there is a decreased rate of production on account of the limited quantity and differing quality of land, while population tends to increase. But the price of necessities, more labor being required for their production, rises; so that money wages are sustained. Real wages fall, and the laborer is really worse paid. His fate is less happy than the landlord's; his corn wages will be reduced, and "his general condition will be deteriorated."

Here, then, is another view tending toward pessimism.

The minimum point is set by the quantity of food, neces-

<sup>1</sup> *Principles*, Chap. V, 2d ed., p. 89.

<sup>2</sup> *Ibid.*, p. 92.

<sup>3</sup> See below, p. 274.

saries, and conveniences which have become essential to the laborer through habit. This makes the natural wage. Thus, in Ricardo's wages system, the price of labor depends upon the price of those goods which the laborer's standard of living make essential, which price in its turn depends (chiefly) upon the quantity of labor required to produce the goods. In a word, the minimum daily wage, according to Ricardo, consists of the necessities which can be produced by the laborer in a day's work upon marginal land, the necessary profits upon the capital employed being deducted. It is hardly necessary to observe that this minimum is not the bare subsistence which it used to be painted. The "conveniences become essential to him from habit" may be considerably more. Ricardo makes this clear in discussing the variation of the natural price of labor in different countries.

In accordance with this idea of a minimum, Ricardo finds one means only of permanently assisting laborers, and that is by giving them such a taste for the comforts and conveniences of life as would lead them to regard the said comforts and conveniences as necessary to life. "The friends of humanity cannot but wish that in all countries the labouring classes should have a taste for comforts and enjoyments, and that they should be stimulated by all legal means in their exertions to procure them. There cannot be a better security against a superabundant population. In those countries, where the labouring classes have the fewest wants, and are contented with the cheapest food, the people are exposed to the greatest vicissitudes and miseries."<sup>1</sup>

As to government interference with the labor contract, Ricardo concluded that, "Like all other contracts, wages should be left to the fair and free competition of the market, and should never be controlled by the interference of the legislature."<sup>2</sup>

As suggested by the above exposition of Ricardo's theory, he at points clearly *suggests* a wages-fund theory. But he

<sup>1</sup> *Principles*, Chap. V, 2d ed., p. 95.

<sup>2</sup> *Ibid.*, p. 103.

did not hold the idea of a rigidly fixed fund.<sup>1</sup> This, indeed, would have been inconsistent with his idea of a natural wage determined at the poverty point. It was left for followers to develop the idea of capital as a fund for the subsistence of laborers and determining the demand for them.

So abstract and absolute a wage theory as Ricardo's proved thoroughly unsatisfactory. Nowhere does the viciousness of the great economist's abstract method appear more clearly. Overlooking differences in work and workers, non-competitive groups, etc., he assumes an average laborer doing average work under conditions of perfect competition and receiving a "natural" wage. The effect of laws and customs is virtually ignored, or dismissed as a "disturbing" factor. He assumes that all laborers are hired by capitalists with the idea of profit. In the face of facts, such assumptions appear so unreal as almost to make the so-called "tendencies" and "natural" wage rates deduced by their aid the exception rather than the rule.

Again, Ricardo made the Malthusian principle of population one of the factors in his wage theory. As stated by Malthus, the principle does not lead to a subsistence wage as a necessary conclusion, but as usual, Ricardo ordinarily leaves out "disturbing" elements! But, even granting that Malthusianism does necessarily lead to this, it has appeared that as anything more than a statement of what would happen if certain other forces were not effective, the tendency of population to increase beyond subsistence is untrue. As more than a tendency, as an historical fact, it is not valid. Thus it is at best a weak argument upon which to base a wage theory. Ricardo's theory is as weak as is the Malthusian principle absolutely put without its limitations, and, furthermore, leads to as pessimistic conclusions.

*Profits and Interest.* — Ricardo's treatment of profits (interest) is the least satisfactory part of his work. It is not only accompanied by error, but is also so slighted and secondary as to be but a rudimentary theory. His whole

<sup>1</sup> See Taussig, *Wages and Capital*, Chap. IX.

treatment might with little exaggeration be styled "some remarks on the relation of profits to wages."

To begin with, there is scant discussion of the source of profits, and no analysis into component parts. Profits consists of interest and undertakers' or entrepreneurs' gain; but the two elements remain virtually undistinguished, Ricardo considering that the interest rate is determined by the rate of profit the entrepreneur can make. The source of profits, the productivity of capital, is taken for granted even more tacitly than the part played by utility in value.

The definition of capital comes in the chapter on wages. Capital is that part of a country's wealth which is employed in production, and consists of food, clothing, tools, raw materials, machinery, etc., necessary to give effect to labor. But chiefly, one gathers, it is considered as advances to laborers; and profits depend upon an excess of the product over the advances.

Briefly put, it is Ricardo's doctrine that the rate of profit depends on wages, rising as wages fall and falling as wages rise. Formally stated in his own words: "In all countries, and at all times, profits depend on the quantity of labour requisite to provide necessaries for the labourers,<sup>1</sup> on that land or with that capital which yields no rent."<sup>2</sup> For the determination of profits we must look to the margin of cultivation. In the case of the least productive investment in agriculture, the total produce only pays labor and capital. There is no rent. This product, then, limits the amount of wages and profits. But how much of it will the capitalist get? He gets what the laborers leave. They must live and reproduce, and receive wages enough to enable them to do so, as well as obtain such conveniences of life as may have become necessary to them. The capitalist is the residual claimant.

If the marginal investment on land is yielding, say £720, it "must be divided between wages and profits. . . . If

<sup>1</sup> That is, on the value of labor, or wages.

<sup>2</sup> *Principles*, Chap. VI, 2d ed., p. 133.

there be no excess, there will be no rent. Whether wages or profits rise or fall, it is this sum of £720 from which they must both be provided. On the one hand, profits can never rise so high as to absorb so much of this £720 that enough will not be left to furnish the labourers with absolute necessities; on the other hand, wages can never rise so high as to leave no portion of this sum for profits."<sup>1</sup>

Two questions arise with regard to this statement of the case: and first, what minimum limit to profit is there? In the above quotation Ricardo admits a minimum, — with what significance will appear in a moment, — saying that some portion of the £720 wages-plus-profits aggregate must always be left for profits. Elsewhere he states that "long before" profits were reduced to nil "there would be no motive for accumulation;"<sup>2</sup> "profits must be sufficient to afford an adequate compensation for their trouble, and the risk."<sup>3</sup> Thus there is some implication of an abstinence idea, but it is carried no farther, and is not brought into connection with the general theory of profits.

The second question is: how is the margin determined, that is, what limits the amount of the wages-plus-profits aggregate (£720)? That this question concerns a maximum point for profits will at once be perceived. Now it cannot be said that the necessity for paying a subsistence wage fixes a maximum limit for profits unless the margin at which the wages-plus-profits aggregate is just yielded, is determined by wages payment alone. If there is, for example, a necessary minimum rate of profit, the wages-plus-profit aggregate and the margin will be modified by profits to that extent; and the upper limit of profit payment becomes elastic so far as wages are concerned. The marginal return would be higher, and the aggregate be, not £720, but, say, £800.<sup>4</sup>

<sup>1</sup> *Principles*, Chap. VI, 2d ed., p. 116.

<sup>2</sup> Note the productivity idea implied.

<sup>3</sup> *Principles*, Chap. VI, 2d ed., pp. 126-127.

<sup>4</sup> Jevons was probably the first to criticize thoroughly the Ricardian theory along the line here followed. See his *Theory of Political Economy*, London, 1871, pp. 256 ff.

Ricardo's general argument would mean that the wages would be the only necessary expense. The farmer would push cultivation to less productive levels till at the margin wages only would be paid. Ricardo, however, himself recognizes that a minimum payment is necessary for capital, and, perhaps unconsciously, admits that the position of the margin must be affected by such necessity. This being true, what prevents profits rising to any height, according to the scarcity of capital, simply necessitating a higher, more productive margin? The wages-plus-profits aggregate would be greater. Higher profits would be possible. Wages and profits may rise at the same time. The truth is that profits are not dependent upon wages, but are independently determined, in the sense that wages are.

Ricardo thought that with progress in civilization profits tend to fall. This would not be due to a competition of capitals, to which he allowed but a temporary effect, but to a lowering of the margin of cultivation following increased demand for food and rising prices. High prices for necessities, high wages, low profits,—this is the tendency. "This tendency, this gravitation as it were of profits, is happily checked at repeated intervals," however, by improvements and discoveries in machinery and agricultural science.<sup>1</sup>

One result of Ricardo's teaching was an emphasis of the idea that there is a natural and inevitable struggle of classes. Put very generally, and in another way, it was Ricardo's idea that the share of the landholder increases, and that it does so at the expense of any real increase in the shares of labor and capital. He taught, moreover, that the laws of nature make for a perpetual struggle between capitalist and laborer, which is certainly a gloomy view. "There can be no rise in the value of labour without a fall of profits. If the corn is to be divided between the farmer and the labourer, the larger the proportion that is given to the latter,

<sup>1</sup> *Principles*, Chap. VI, 2d ed., p. 124.



the less will remain for the former. So, if cloth or cotton goods be divided between the workman and his employer, the larger the proportion given the former, the less remains for the latter."<sup>1</sup> Adam Smith had already hinted at these pessimistic doctrines, but he did not bring them out with such clearness and precision as did Ricardo. (As implied elsewhere in this chapter, Ricardo, while a follower of Adam Smith, was far from being a mere expositor of his predecessor.)

**Ricardo's Ideas on Surpluses.**—The Physiocrats made much of the idea of the return from land as a unique surplus; their *produit net* was a sole surplus over costs, arising from the bounty of nature. Ricardo, as indicated in the section on rent, also treated rent as a surplus, while basing it upon the niggardliness of nature. But he at points suggests the existence of other surpluses. Labor, he says, may sometimes receive a surplus; and, above all, he makes some remarks concerning profits which would seem to indicate that he regarded them in part as something over and above cost. In this matter he is not consistent,<sup>2</sup> having probably not given it distinct consideration. Thus his discussion of the wages-plus-profits aggregate, taken in connection with his idea of a minimum subsistence wage, would leave profits as a varying residuum, containing presumably an element of surplus. Also he states that taxes can be made to rest upon profits, and that savings can be made from them,<sup>3</sup> which would lead to a similar conclusion. On the other hand, he conveys the idea of the necessity of profits as a motive for accumulation and a compensation for risk and trouble; and at one point he says that a tax on profits would raise prices.<sup>4</sup> Again, the tendency of profits to a minimum (later worked out by Mill) is suggested. These various ideas were not connected and correlated by Ricardo. It does not seem fair to say more than that his treatment is wavering, and that had he been put to it he would probably have made profits a cost, not a surplus, under competitive conditions.

<sup>1</sup> Chap. I, § 4, 3d ed.

<sup>2</sup> 2d ed., p. 441.

<sup>3</sup> See Chap. XXVI.

<sup>4</sup> *Ibid.*, p. 245.

Other notable features of Ricardo's work are his discussions of money and foreign trade. In the latter subject he emphasized the ability of acquiring goods cheaply through international division of labor<sup>1</sup> and partly worked out the idea of comparative cost, though on this last point he may well have drawn upon Colonel Robert Torrens.<sup>2</sup>

**Philosophy and Method.** — There is relatively little to be said concerning Ricardo's philosophy, and that largely by way of implication and inference. He was no philosopher. But one of his training and motive easily became utilitarian, and utilitarian in the narrower sense. He was interested in material things; he was an individualist; his citizen was the "economic man"; he had the idea of an indefinite sum of satisfactions — there was no limit to the desire for enjoyment. These characteristics stamp the utilitarian political economists of the early nineteenth century,<sup>3</sup> Bentham (1748–1832), James Mill, M'Culloch, etc., and Ricardo followed tactfully. James Mill was his friend and mentor, and, through Mill, Ricardo met Bentham, the man who above all others gave the Classical School of political economy its ethical point of view.

It may be said, then, that Ricardo was utilitarian in the narrower sense, and certainly he was at heart a materialist. His economy was what certain writers have called primitive. In it the forces of nature were dominant and man was ruled by environment. Progress of society and the ideal formed small place in it.

Ricardo's economic philosophy was that of the manufacturing middle classes of contemporary England. He was a free trader and believed in the effectiveness of competition, though, like Bentham, he can hardly be classed as a member of the "Manchester School." He taught that rent is an unearned deduction from other shares, increasing in a declining state; while profits (and interest) rise with progress,

<sup>1</sup> J. S. Mill elaborated Ricardo's doctrine. See below, pp. 419 ff.

<sup>2</sup> Torrens, *An Essay on the Corn Trade*, pp. 264–265 (1815).

<sup>3</sup> Bonar, *Philosophy and Political Economy*, pp. 218–219.

betokening an identity of interest between society and capitalists. Profits, moreover, depend on wages, the implication being that low wages are desirable, at least if by low wages is meant wages that are low as compared with the efficiency of the laborers. He has broken with the Physiocrats, Smith, and Malthus. He stands for the newly dominant class, attaching an importance to profits that is similar, in a way, to the attitude of the earlier economists toward the land-rent surplus.

Indeed, while in a sense Ricardo reacts from Smith to the Physiocrats in his conception of the scope of economics, emphasizing Distribution as he does,<sup>1</sup> he also gives a great blow to the remnants of their ideas of productivity and nature philosophy. One of his great services lay in the fact that more than any predecessor he separated political economy from other branches of knowledge, and from ethics and jurisprudence, in particular.

In spite of all the foregoing points, however, it would be unjust to overlook Ricardo's wise and broad-minded recognition of the difference between "national riches" and individual values, and of the importance of standards of living. These things show that his utilitarian individualism was for him merely the working premise which, in view of his environment and the condition of the science, seemed most expedient.

Much might be said on Ricardo's method.<sup>2</sup> Perhaps no other economist has been so abstract and hypothetical as he. In all that he says concerning value he does not adduce one single illustration from actual life. Not even one historical or statistical fact is brought forward to support his conclusions. Inside of two pages no fewer than thirteen distinct suppositions, all of them purely imaginary! The whole discourse is hypothetical. The deficiency of this method has

<sup>1</sup> In a celebrated letter to Malthus, Ricardo wrote: "Political Economy you think is an enquiry into the nature and causes of wealth; I think it should rather be called an enquiry into the laws which determine the division of the produce of industry amongst the classes who concur in its formation."

<sup>2</sup> See Keynes, *Scope and Method of Political Economy*, pp. 222 ff.

already been commented upon in discussing Ricardo's theory of wages.

Again, his method is clearly deductive. There is a considerable element of truth in regarding Smith's work as combining two methods and Malthus and Ricardo as pursuing the one and the other. For weal or woe, Ricardo long possessed an unparalleled ascendancy over English economic thought, and not the least effect of his sway was the prominence given the method he followed. From a few premises he builds up his system like a mathematical proposition. But his premises are often taken for granted. They consist either in the doctrines of Smith, or in some broad induction of his time, as the law of diminishing returns. Enlightened self-interest, competition, the naturalness of existing institutions, are assumed. Then all "disturbing" factors are practically disregarded. Single causes are taken, and an acute and generally accurate deduction follows. The trouble generally lies in the premises; for there is almost no verification with facts. Though not entirely so, Ricardo's thought is relatively free from *inconsistency*.

The very narrowness and absolutism that went naturally with such methods were for the time a source of strength. The confusion in Smith's statements had been worse confounded by the breaking out of the Industrial Revolution, and men wanted rules. Their feeling then was that of De Quincey, when he said: "Mr. Ricardo had deduced, *à priori*, from the understanding itself, laws which first gave a ray of light into the unwieldy mass of materials, and had constructed what had been but a collection of tentative discussions into a science of regular proportions, now first standing on an eternal basis."<sup>1</sup>

It has been suggested that Ricardo's much-extolled logical power was due to the fact that being a business man and of foreign stock he was blind to the traditions of English insti-

<sup>1</sup> *Confessions of an Opium Eater*, quoted by Toynbee, *Ricardo and the Old Political Economy*, p. 2. See this essay for Ricardo's influence, the grounds for it, and his limitations.

tutions and thought, thus pursuing a straight course through inability to see the crooked branch roads.<sup>1</sup> But while this suggests some modification, the general belief in Ricardo's powerful and acute deduction seems just. In his abstract narrowness lay no small share both of his weakness and of his strength.

**Ricardo's Followers.** — The only immediate followers of Ricardo's economic ideas who are worthy of note are James Mill (1773–1836), J. R. M'Culloch (1789–1864), and Thomas De Quincey (1785–1859). James Mill, father of John Stuart Mill, was a philosopher and historian of no mean powers. His chief economic work, entitled *Elements of Political Economy* (1821), aimed to be an epitome of accepted economic doctrines. In it he presented extreme views on the labor theory of value, and a pessimistic interpretation of the Malthusian principle. The father had much influence upon his great son's thought, and was effective in stimulating Ricardo to publish. M'Culloch was a less original thinker than Mill, but his chief economic work, *The Principles of Political Economy* (1825), was widely read both in England and on the Continent, its effect being seen in the work of Laveleye, notably in the treatment of those conditions upon which the productivity of labor depends. He held views on value like those of Mill, and is notable as an early exponent of the wages-fund theory, a theory which he set forth in an *Essay on the Circumstances which determine the Rate of Wages and the Condition of the Labouring Classes* (1826). M'Culloch was also active in statistics and in the bibliography of economics. De Quincey wrote *Dialogues of Three Templars* (1824), defending a narrow interpretation of the Ricardian theory of value, and the *Logic of Political Economy* (1844), in which he emphasized the importance of utility and made significant suggestions concerning the theory of rent.

These men were friends of Ricardo's; they were possessed of excellent powers of exposition; and they contributed in no small degree to the effective dissemination of his theories.

<sup>1</sup> Patten, *Development of English Thought*.

## 2. OPTIMISTIC TENDENCIES

THOUGH one should refrain from calling Malthus and Ricardo pessimists, they did bring out the dark side of Smith's thought. They developed pessimistic tendencies. But while the English Classical economists were working out an analysis which contained so many seeds of pessimism, the optimistic tendencies noticed in the *Wealth of Nations* were not without defenders. Those who clearly developed and emphasized these tendencies were mostly Frenchmen and Americans. From the Physiocrats on, optimistic views have, on the whole, obtained among French thinkers, though there have been some notable exceptions. The ever-lurking idea of a beneficent law of nature or a natural harmony of interests worked in this direction. Perhaps, too, the buoyancy of the national psychology of the French might be mentioned in this connection, together with their well-known love of harmonious system. With them, moreover, the closely related philosophy of individualism has been fostered by a prevalence of small landed proprietors, shopkeepers, and manufacturers, which has existed down to the present day. And their long warfare against the various phases of communism and socialism, as well as revolutionary tendencies in general, have doubtless helped to confirm this natural tendency. As for America, her "boundless" natural resources and rapid industrial progress forbade serious pessimism.

Accordingly a group of economists who doubted the law of diminishing returns must now be considered; economists who challenged the Ricardian doctrine of rent; who criti-

cized or rejected the Malthusian principle of population; and who believed that the interests of the various classes are in harmony. Though probably less influential in shaping the stream of pure economic theory than the less optimistic economists, they have served as a counterpoise, and have at points furnished the needed criticism and correction.

As characterizing schools of economic thought, neither optimism nor pessimism is to be taken as fundamental: both are but symptoms, indicating the existence of certain ideas or theories more essentially connected with the science. In fact, many economists can not be classed as being either optimistic or pessimistic; while optimism or pessimism may be based upon widely different grounds. At least two classes of optimists are to be distinguished, one being materialistic and believing in *laissez faire*, the other idealistic and believing in social reform.

The materialistic type of optimist is well represented by the French economist, J. B. Say, and such followers as Dunoyer, Garnier, and Chevalier. The German, J. H. Von Thünen, and some of the leaders of the Austrian School, may also be classed here. They were all believers in the general efficacy of *laissez faire* and the soundness of individualism. Their optimism arose from a conviction that by leaving things alone and allowing free play to the force of nature a beneficent social order may be established.

Idealistic optimists base their hopes on social reform. They believe that by taking thought and adopting perfected social arrangements, man may overcome environmental limitations and make progress toward the ideal state. Such thinkers are apt to have considerable faith in the perfectability of human nature and institutions, as did Godwin and other sentimental socialists. John Stuart Mill and Arnold Toynbee may also be mentioned as illustrating the type. The German economist Friedrich List, who was optimistic to a degree, emphasized social arrangement in the shape of national organization.

Probably the two most outstanding optimists, however,

were Henry C. Carey and Frédéric Bastiat, whose thought will be the subject of the next two chapters.

These economists came as near as possible to making optimism the most prominent characteristic of their teaching. They illustrate the difference among optimists, however, for Carey was more idealistic in reasoning about man's power over nature and the potency of human institutions; and Bastiat showed more of the influence of Say in his *laissez-faire* teachings.



## CHAPTER XIII

### CAREY AND THE "AMERICAN SCHOOL"

IN so far as anything like a distinctively American School of Political Economy existed during the course of the eighteenth and nearly the whole of the nineteenth centuries, its characteristics were those to be expected from the history of the country and its economy. Americans were filled with a great desire to build up the economic independence of the young nation, and this spirit was coupled with an optimism born of apparently inexhaustible natural resources. As will appear in a moment, the thought of Henry C. Carey was the culmination of these factors. Carey was to some extent preceded, however, by Hamilton and Raymond; and a paragraph may well be devoted to each of these earlier thinkers.<sup>1</sup>

**Predecessors of Carey.**—Alexander Hamilton (1757–1804) was a lawyer and statesman, — one of the greatest statesmen produced by America, — and his economic views are to be drawn chiefly from his state papers on finance. During the years 1790 and 1791 he discussed in a lucid, temperate, and weighty manner the economic questions which confronted the nation: the public debt, money, banks, protection of manufactures. Hamilton favored bimetallism on grounds of expediency; showed the advantages of using public credit and of a national bank; and forcefully stated the grounds for government intervention to encourage indus-

<sup>1</sup> Benjamin Franklin might be called the first American economist. He had some just ideas on money and on population (above, p. 230 (note 1)). His work *On the Price of Corn and Management of the Poor* was published in the *London Chronicle* in 1766, and was later reprinted in M'Culloch's collection of scarce and valuable tracts. Franklin was personally acquainted with some of the Physiocratic thinkers, and held ideas on productivity similar to theirs. (See Wetzel, *Johns Hopkins University Studies*, Vol. XIII, pp. 425 ff.)

try, as opposed to the general *laissez-faire* position.<sup>1</sup> In denying the argument that labor is more productive in agriculture than manufactures, he clearly suggests the idea that land is but a form of capital,<sup>2</sup> an idea characteristic of the "American School."

Hamilton's refutation of the Physiocratic argument was couched in the following language: —

"To affirm that the labor of the manufacturer is unproductive, because he consumes as much of the produce of land as he adds value to the raw material which he manufactures, is not better founded, than it would be to affirm that the labor of the farmer, which furnishes materials to the manufacturer, is unproductive, because he consumes an equal value of manufactured articles. . . . Each destroys a portion of the produce of the labor of the other. . . . In the meantime the maintenance of two citizens, instead of one, is going on; the State has two members instead of one; and they, together, consume twice the value of what is produced from the land."

Other characteristic features are the emphasis he laid upon building up domestic manufactures in order to develop a home market for agricultural produce,<sup>3</sup> and a note of optimism.

Hamilton probably exerted some influence on Friedrich List, of whom more later.

Daniel Raymond<sup>4</sup> published his *Political Economy* in

<sup>1</sup> *Amer. State Papers*, Finance, Vol. I, p. 128. *Alex. Hamilton als National-ökonom* is the title of an inaugural dissertation (Halle) by Harrower (1887).

<sup>2</sup> *Ibid.*, p. 124 (1791).

<sup>3</sup> His arguments for manufactures were summed up under seven heads: —

1. Division of Labor.
2. Extension of use of machinery.
3. Additional employment to those classes of the community not ordinarily engaged in business, — women, children, and others.
4. Promotion of emigration from foreign countries.
5. Greater scope for the diversity of talents and dispositions, which discriminate men from each other.
6. More ample and varied fields for enterprise.
7. "The creating, in some instances, a new, and securing, in all, a more certain and steady demand for the surplus produce of the soil." (See *ibid.*, p. 125.)

<sup>4</sup> See Neill, C. P., *Daniel Raymond: An Early Chapter in the History of Economic Theory in the United States*, Johns Hopkins University Studies, Vol. XV, pp. 217-281.

1820. It shows several points of similarity to Hamilton's ideas, and classes its author as a forerunner of Carey. Like Carey, Raymond was on many points opposed to the cosmopolitanism of the Classical School. He favored a protective tariff, and argued at length for internal freedom of trade while demanding restriction from without. In this connection he shows the school's characteristic animosity toward England. It was not for old Europe burdened with chronic evils to develop the true political economy, he maintained, but for vigorous young America. Raymond followed Lauderdale in opposing individual to social interests, distinguishing wealth from value. That is, he opposed the exchange-value idea of wealth, and insisted that facility of acquiring the necessities and conveniences of life by labor should be requisite for increased wealth. He criticized the Malthusian principle of population. He also virtually ignored the law of diminishing returns and classed land with capital. Raymond was dogmatic in tone and both assumed theological premises and emphasized "laws of nature." The writers to whom he refers are Ganilh, Montesquieu, Quesnay, Smith, Lauderdale, and Malthus.

A. H. Everett (1792-1847) deserves mere mention as a forerunner of Carey, in that he published a book in 1823, called *New Ideas on Population*, in which he maintained that population means abundance on account of the increase in skill, division of labor, and invention which it brings. He was a protectionist.<sup>1</sup>

Contemporary with Everett was Willard Phillips (1784-1873), a writer whose thought, while based on the Classical doctrines, shows some of the tendencies common in his country and time.<sup>2</sup> "National production" is his chief concern, and he favors various bounties and restrictions. Although not at first an advocate of the protective system, he later

<sup>1</sup> See "British Opinions in the Protecting System," *North Amer. Rev.* XXX, 160; "American System," *N. Amer. Rev.* XXXII, 127.

<sup>2</sup> *Manual of Political Economy* (1828), Phillips refers to the following writers: Necker, Lauderdale, Say, Smith, Malthus, Lowe, Montesquieu, Locke, Ricardo, Franklin, Mirabeau, S. Gray, and others.

became one.<sup>1</sup> Population is little mentioned, while the inexhaustible treasures of the earth are dwelt upon, and rent is said to depend upon the abundance of land. Demand is made the force upon which value depends; and instead of a subsistence theory of wages we find something which may be called a productivity theory.

This early reaction of American thinkers against the Classical School is a matter of considerable interest.

These men, however, are of very slight importance in the development of the world's economic thought. In fact, until the late years of the nineteenth century the United States did little to advance the social sciences. President McCosh of Princeton could say that America had produced only one metaphysician, President Edwards. So in the history of political economy America long had but a solitary name, that of Henry C. Carey. Able Americans like Alexander Hamilton wrote well on politico-economic subjects; but they added nothing important to the science of Economics.

Nor is it gratifying to think that America's best known representative in the history of political economy should frequently be regarded as great chiefly in his errors. All allow that Carey was a man of intellectual ability and original power; but it is not so much by the truth he discovered that he advanced science. More often he presented error in such manner that it required reflection, observation, and close thinking to refute it.

**Carey's Life and Works.** — Henry Charles Carey was born in Philadelphia in 1793. His father was Matthew Carey, an Irishman who had emigrated from Dublin on account of political persecution, and had founded a publishing house in Philadelphia. Henry C. Carey was well educated, and became partner in his father's business in 1814, taking upon himself the entire management of it in 1821. He established the auctions of the publication houses which have become so important in the book trade in this

<sup>1</sup> *Protection and Free Trade* (1850).

country. Having acquired a fortune, he retired from business in 1835, and devoted the remainder of his life, upwards of forty years, to study and literature, in particular to the development of his system of social and political science. He endeavored to employ his opportunities in such a manner as to benefit mankind. He died at the advanced age of eighty-six, on the 12th day of October, 1879.

The following are his principal writings: *An Essay on the Rate of Wages, with an Examination of the Causes of the Difference in the Condition of the Labouring Population throughout the World*, published in 1835; *Principles of Political Economy*, in three volumes, published between 1837 and 1840. This work is an enlargement of the work first named, and contains the most important part of his system. *The Credit System of France, Great Britain and the United States* appeared in 1838; *An Answer to the Questions: What constitutes Currency? What are the causes of its Unsteadiness? and What is the Remedy?* in 1840; *The Past, the Present, and the Future*, in 1848; and the *Harmony of Interests, Agricultural, Manufacturing, and Commercial*, in 1851. In this last work Carey establishes his theory of protection. Two years later, i.e. in 1853, he published *The Slave Trade, Domestic and Foreign: how it exists and how it may be extinguished*, and also *Letters on International Copyright*. Carey's most important work, however, was his *Principles of Social Science*, published in three volumes, in the years 1857-1860. In this work he has given us his complete system and repeated all the ideas and doctrines in his previous works which he considered new and important. A condensation of the work in one volume by Kate McKean was published in 1864, with the author's approval.

**Value.** — As with Bastiat, so in Carey's case, value is the center of the System of Harmony. Carey's is a labor theory. Value is determined by the amount of labor required for production at the present time or for reproduction at any given time. As he puts it, value is caused by the obstacles to production, and measures nature's power over

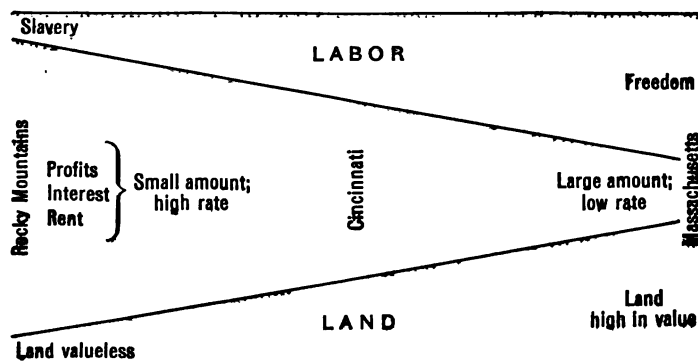
man. He is more consistent than Bastiat in confining the term "utility" to signify man's power over nature, a conception which Bastiat designated by the phrase "gratuitous utility."

**Social Progress and Distribution.** — Carey includes land with capital, inasmuch as he regards the former as a product of human effort.<sup>1</sup> He concludes that with progress the shares received by labor and capital both increase; but not at the same rate, for the laborer's share, wages, increases relatively to that of capital (and land). Thus, to illustrate the idea, he constructs tables similar to the following: —

	TOTAL PRODUCT	CAPITAL'S SHARE	LABOR'S SHARE
1st land . . . . .	100	80	20
2d land . . . . .	200	120	80
3d land . . . . .	300	150	150

This conclusion rests upon his theory of value and his optimism: labor increases in productiveness, less labor is required to produce things, and so less labor will be given for products past or present. Accordingly the value of man rises as compared with capital.

The whole scheme is graphically represented thus: —



<sup>1</sup> Mental and physical strength are also included!

With progress, "societary circulation" becomes more rapid; capitalists can demand only lower rates, but receive larger aggregate amounts; wages increase absolutely and relatively; and industrial classes tend toward equality;—so runs the harmonious order of events!

**Rent.**—The three principal points in Carey's system to be considered further, are his theories concerning Rent, Population, and Protection. Protection will be treated of in discussing the opponents of Adam Smith, for Carey may be considered as ranking among them in that regard. Carey's doctrines of Rent and Population are aimed at Ricardo and Malthus. It may seem strange that Carey should be considered a follower of Adam Smith, since he contends against Ricardo and Malthus, also followers of Smith. But the existence of contradictions between different statements made by Adam Smith has been pointed out, and it was possible for two opposing schools to trace their origin to him. Carey, accordingly, holds Smith in considerable estimation, while condemning his later English followers in strong terms.

In his *Principles of Political Economy*, Carey assented to Ricardo's opinion that the best lands are cultivated first. He did not, however, even then acknowledge that Ricardo's theory of rent was correct; since he held that the value of commodities depends upon the cost of reproduction, and that the cost of producing agricultural commodities, or food and raw material, decreases with general progress.

He felt, however, that his theory was still incomplete. In the preface to his *Principles of Social Science* he says of the earlier work:—

"He had already satisfied himself that the theory presented for consideration by Mr. Ricardo—not being universally true—had no claim to be so considered; but it was not until ten years later that he was led to remark the fact that it was universally false. The real law, as he then saw, was directly the reverse of that propounded by that gentleman, the work of cultivation having, and that invariably, been commenced on the poorer soils, and having passed to the richer ones as wealth had grown and population had increased. Here was

the great fundamental truth of which he before had thought, and the one, too, that was needed for the perfect demonstration of the truth of those he previously had published. Here, too, was further proof of the universality of natural laws, the course of man in reference to the earth itself being thus found to have been the same that we see it to have been, in reference to all the instruments into which he fashions the several parts of the great machine. Always commencing with the poorest axes, he proceeds onward to those of steel; always commencing with the poorer soils, he proceeds onward to those richer ones which yield the largest return to labor, the increase of numbers being thus proved to be essential to the increase in the supply of food. Here was a harmony of interests directly opposed to the discords taught by Mr. Malthus."

This great law, as Carey calls it, was first announced to the world in 1848 in *The Past, the Present, and the Future*.

Carey maintains that experience shows that at first men take up poor soils, because they are light and sandy and easier to cultivate. Men begin to cultivate the hills, and when the poorest land is exhausted and numbers and knowledge have increased, they work down toward the rivers and make use of the rich valleys. The last settlers, therefore, receive the best land. Labor becomes continually more productive, wealth increases, and man progresses.

The earth is only the material of a machine which the agriculturist makes and calls a farm. He can obtain for it at most only what it has cost him, for plenty of this material remains, and others will construct machines for themselves rather than pay more. In fact, the farmer cannot, as a rule, obtain so much for his machine as it cost him, because the material remaining is better and man learns how to work with less cost. He is able to obtain only what it would cost to *reproduce* it. It is the same as with an ax which may have been manufactured ten years before. The owner cannot obtain what it cost him, but only what it would cost to make another one at the present time. There is no essential difference between the farmer and any other capitalist. The farm simply represents so much capital.

Carey seeks the aid of history in the development of his theories, but his knowledge appears to have been as weak as



his critical faculty. It is true that, in many places, people have first settled on high land, but some of the causes which have led them to do so have not been at all of an agricultural nature, as for example the desire for defense or to secure freedom from disease.<sup>1</sup> As was easy under the circumstances, he overestimated his discoveries and gave them a universality which does not belong to them. It is going too far to intimate that the poorer lands are always first cultivated, however the quality is estimated. Can any one imagine that a farmer who has the choice would deliberately pick out that land for cultivation which yields the least return to his labor and capital? As Lange says: "Even unfruitful heaths and hillsides are gradually brought into a state of cultivation. This is what I see every day in my home on the lower Rhine and in Westphalia, where agriculture and manufactures flourish together, and is therefore a fact which no Carey can convince me to be untrue."<sup>2</sup>

Again, Carey clearly does not understand Ricardo's theory, or at least does not represent it fairly. The fruitfulness of land is a relative conception. If a certain amount of capital and labor will yield more when applied to a light than to a heavy soil, the light soil is, in the sense of Ricardo's theory of rent, the more fruitful, although it may be possible to produce more on the heavier soil by applying a greater amount of labor.

It may be that Ricardo himself did not bring this out with sufficient clearness. In fact, it is owing to Carey's opposition that Ricardo's followers have been led to explain so precisely as they have what is to be understood by good, better, and best land. Carey attacked Ricardo with so much force and ability that it compelled political economists to go over again the whole ground of the theory of rent. The result has been a correction and amplification. This is Carey's service.

<sup>1</sup> See Hibbard, *History of Agriculture in Dane County*, Bul. of the University of Wisconsin.

<sup>2</sup> *Angewandte Umwälzung der Sozialwissenschaft durch Carey*.

**Theory of Population.**—Carey held Malthus to be wrong, first because he maintained the Malthusian theory was contrary to God's attributes. He begins the chapter (xxxviii) on population thus: "'Be fruitful and multiply,' said the Lord, 'and replenish the earth and subdue it'"; and after describing briefly Malthusianism, as he understands it, adds: "Can such things be? Can it be that the Creator has been thus inconsistent with Himself? Can it be, that after having instituted throughout the material world a system, the harmony of whose parts is absolutely perfect," He has of design, subjected man, the master of all, to laws which must produce universal discord? Can it be, that after having given to man all the faculties required for assuming the mastery of nature, it has been a part of His design to subject him to laws in virtue of which he must become nature's slave? It hardly seems necessary to criticize this position.

A second argument is deduced from the harmonious laws of nature. As the earth is cultivated, the lower races of animals die out and the supply of carbonic acid tends to diminish, since animals generate it and plants consume it. It is therefore necessary that the numbers of the human race should increase in order to furnish the vegetable world with the necessary amount of carbonic acid. It is doubtful if Carey's dilettanteism in natural science ever led him to a rasher hypothesis. In the first place, aside from any question as to where the carbonic acid comes from, it may be fairly doubted whether the amount generated by man or the lower animals has any appreciable effect on vegetation. In the second place, it might with equal propriety be argued that the number of mankind ought to decrease, since the great amount of coal now consumed as fuel is increasing the supply of carbonic acid gas so rapidly as soon to upset all natural and harmonious arrangements.

A third argument used by Carey is that the increase of numbers denotes increase of wealth. The more hands, the more producers of wealth. The greater the number of

inhabitants, the greater the combination and division of labor.<sup>1</sup> To a certain extent this is true. It must simply be remembered that labor is only one element of production, while increase of wealth depends upon the harmonious development of the three elements, land, labor, and capital.

Carey next argues that it is absurd to suppose that man alone increases in geometrical ratio. The lower animals which furnish him with food increase as rapidly and even more rapidly. A single grain of corn produces hundreds of grains, and these if planted will increase in like number. That is geometrical progression. "The progeny of a single pair of carp," says Carey, "would in three years amount to thousands of billions; that of a pair of rabbits would in twenty years count by millions; whereas that of a pair of elephants would not number dozens. When, however, we reach the highest form, we hear of a new law, in virtue of which man increases in a geometrical ratio, while increase of the commodities required for his use is limited to the arithmetical one."<sup>2</sup>

J. S. Mill's reply is to the point. "Mr. Carey," he says, "expatiates on the absurdity of supposing that matter tends to assume the highest form of organization, the human, at a more rapid rate than it assumes the lower forms which compose human food; that human beings multiply faster than turnips and cabbages. But the limit to the increase of mankind, according to the doctrine of Mr. Malthus, does not depend on the power of increase of turnips and cabbages, but on the limited quantity of the land on which they can be grown. When Mr. Carey can show, . . . not that turnips and cabbages, but that the soil itself, or the nutritive elements contained in it, tend naturally to multiply, and that too, at a rate exceeding the most rapid possible increase of mankind, he will have said something to the purpose. Till then, this part, at least, of his argument may be considered as non-existent."<sup>3</sup>

<sup>1</sup> Everett in a book on *Population* (Boston, 1823) had made this argument.

<sup>2</sup> *Social Science*, p. 57.    <sup>3</sup> *Principles of Political Economy*, Bk. I, Chap. X, § 3.

A further argument used by Carey is the same as that advocated by Herbert Spencer in his *Biology*. It is only one of a number of striking resemblances between them, and Carey's works were published first.<sup>1</sup> The position taken by Carey is that there is an antagonism between the intellectual and generative functions, and that the growth of population tends to decrease in rate as man becomes more highly developed, so that the supply of men is equal to the demand by a self-acting law. Carey is able to give no proof for this position, however, for statistics such as he cites may be found on both sides. This very plausible idea remains a mere hypothesis to this day.

**Philosophy and Method.**—Carey's philosophy is, after all, rather simple and easily understood. It is highly charged with that sort of idealism which has animated the growing American nation. He believed in the conquest of nature by man; association spreads; mental power supersedes muscular; man's control over nature grows. With similar significance the power of the state is confidently invoked to give America industrial independence. And there is manifest an allied tendency to take the subjective point of view.

Carey's method may be considered as a curiosity. It is truly unique. It is a mixture of all methods. He says in one and the same breath that the English were wrong in using too exclusively the deductive method, and that the mathematical method is the correct one. He accuses others of neglecting facts for hypotheses, and himself immediately makes the most astounding suppositions. He complains that political economy has not advanced beyond the metaphysical stage of knowledge, and at the same time represents inspiration and intuition as the highest branches of the tree of knowledge, since they are the sources of other sciences. But

<sup>1</sup> It should be noted, however, that in an article published in the *Westminster Review* in 1852, Spencer argued that when the world becomes duly populated the pressure of population must gradually come to a close. This was some six years before Carey's *Social Science*, and it is not unlikely that he drew upon the article to some extent.

intuition is the source of the metaphysical method and inspiration of the theological.

Carey's fundamental supposition, the one which would perhaps logically come first, is that the laws of physical science are those of social science, since one uniform and harmonious law governs mind and matter. The laws "instituted for the government of matter in the form of clay and sand" are "the same by which that matter was governed when it took the form of man, or of communities of men." It follows that one and the same method is to be pursued in the investigation of all sciences, a conclusion which at present it would be impossible to prove. To do him justice, Carey himself does not make any attempt to do so.

As in his opinion the same laws govern matter and mind, society and the material universe, it is not surprising to find him employing the technical terms of physical sciences and making use of forced analogies between social phenomena and those of external nature. He speaks of man, for example, as the molecule of society, and describes his gregarious disposition as the law of molecular gravitation. Because large cities attract more people to them than small cities, and attract more people from their immediate neighborhood than from a great distance, he feels warranted in asserting that "gravitation is here, as everywhere, in the direct ratio of the mass and the inverse one of the distance."<sup>1</sup>

A little reflection shows that such a statement is extremely misleading and even absurd.

**Inconsistency.** — Carey possessed much originality, but lacked a scientific training. His work is unsystematic and not without glaring inconsistencies. Thus he holds that better and better lands are taken under cultivation and lower prices result; while elsewhere we are told that the growth of industry makes the price of subsistence higher. While admitting that in market centers the means of life are dear-

<sup>1</sup> McKean's edition of *Social Science*, p. 38.

est, he asserts that a dense population through the power of association makes things cheaper.

**Carey's Followers of the Early American School.** — In so far as an American School of political economy is ever spoken of, Carey and his adherents are meant. This is perfectly proper. America has had no other body of political economists who could by any possibility be considered as forming a *school*. Carey found warm admirers on this side of the Atlantic as well as on the other. Many were ready to accept his system as proved beyond the possibility of doubt. The following may be considered as among the more noteworthy of his American followers.

First, E. Peshine Smith, who wrote a *Manual of Political Economy*, which was published in Philadelphia in 1853, and was later given a French translation. It contains an exposition of Carey's system in the form of a textbook. Peshine Smith acknowledges frankly that Carey is his master, and declares his unbounded faith in him. In his preface he says: "Mr. Carey, by showing that the fact is directly the reverse of the hypothesis of Ricardo, and by establishing the consequences which flow from it, restored harmony to what was before a mass of discordances, and rendered it possible for the *first* time to construct a science out of what was a mere collection of empirical rules." Smith explains that the object of his manual is to provide us with a truly American system of political economy.

Another author, who, though possessed of more ability and independence, was influenced by Carey and may be classed as a member of the Early American School, attempted to do the same. This was Francis Bowen (1811–1890), formerly professor of political economy in Harvard, and author of the *American Political Economy*, published in 1870.

In his *Politics for Young Americans*, in many respects an excellent little work, Charles Nordhoff expresses strong admiration for Carey, and shows himself an undoubting disciple.

Horace Greeley wrote a work on political economy, published in Boston in 1870, the full title of which indicates its scope: *Essays designed to elucidate the Science of Political Economy, while serving to explain and defend the Policy of Protection to Home Industry as a System of National Coöperation for the Elevation of Labor*. The book is well worth reading.<sup>1</sup> Neither Bowen nor Greeley was dependent upon Carey to the extent that Nordhoff was, but it seems that both should be considered as belonging to the "American School."

Others who might be mentioned are Stephen Colwell, *The Relative Position in our Industry of Foreign Commerce, Domestic Production and Internal Trade* (1850), *The Ways and Means of Commercial Payment* (1858), *The Claims of Labour and their Precedence to Claims of the Trade* (1861); William Elder, *Conversations on Political Economy* (1882); and Robert Ellis Thompson, *Social Science and National Economy* (1875), *Elements of Political Economy* (1882), and *Protection to Home Industry* (1886). In more recent times, very clear traces of Carey's influence appear in the thought of Professor S. N. Patten.

There has been no small amount of discussion over the relative originality of Carey and the French economist, Bastiat, concerning which more will be said in the following chapter.

<sup>1</sup> For some further comment on Greeley's thought see article by Commons (J. R.), in *Pol. Sci. Quarterly*, XXIV, pp. 468-488.

## CHAPTER XIV

### BASTIAT AND THE FRENCH OPTIMISTS

**Bastiat's Life and Writings.**—Frédéric Bastiat<sup>1</sup> was born in 1801, in Bayonne, France. It was planned that he should become a merchant, but inheriting an estate at the age of twenty-five, he first tried agriculture with small success, and then devoted the remainder of his life to study. After pursuing various branches his attention was attracted by the writings of some of the French economists, the most prominent of whom was J. B. Say, and political economy became thereafter his favorite study.

He became successively a justice of the peace (1831), member of the general council of his department, and, unsuccessfully, a candidate for the Chamber of Deputies.

The articles written then, and a little pamphlet written to support his candidature for another office, were the first published expressions of his demand for non-interference of government in matters of trade and manufactures. But Bastiat's first important literary attempt appeared in 1844. It was an article in the *Journal des Économistes*, "Concerning the Influence of English and French Tariffs on the Future of Both Peoples." He had been led to write the essay by a journey he had made through Spain and England. In the latter country he had become acquainted with the leaders of the Anti-Corn Law League, and determined to do for France what they had done and were doing for England. In 1845 he published *Cobden and the League* (*Cobden et la Ligue*) to glorify "the grand movement" as he

<sup>1</sup> Cf. Bluntschli u. Brater, *Staatswörterbuch*, art. "Bastiat" (Mangoldt); Von Leesen, *Frédéric Bastiat* (München, 1904); Böhm-Bawerk, *Geschichte und Kritik der Zinstheorien* (1884); McLeod, *History of Economics* (1896), pp. 135 ff.



called it. And at about this time he began a series of articles in the *Journal des Économistes*, which appeared soon after as a book, with the title *Sophismes Économiques*. An English translation, called *Sophisms of Protection*, was published in 1877. This is Bastiat's chief destructive or negative work.

In 1845 Bastiat removed to Paris and became secretary of the Free Trade Association there, and also took charge of a newspaper called *Free Trade*. After the Revolution of February, 1848, Bastiat became a member first of the Constituent and afterwards of the Legislative Assembly, in which he devoted his energies chiefly to fighting the Communists and Socialists.

Besides numerous newspaper articles, Bastiat continued to bring out at intervals essays designed to popularize his ideas, such as those on Property and Law, Justice and Fraternity, — aimed against the Socialists, — and Peace and Liberty. A number of these have been translated and published with the title *Essays on Political Economy*.<sup>1</sup> All are written in a pleasing and luminous style, but have comparatively little scientific value.

A good illustration of Bastiat's method appears in his ironical "Petition of the Manufacturers of Candles, Wax-lights, Lamps, Candlesticks, Street Lamps, Snuffers, Extinguishers, and of the Producers of Oil, Tallow, Rosin, Alcohol, and, generally, of everything connected with Lighting."<sup>2</sup> These lesser luminaries are represented as suffering from intolerable foreign competition, namely, that of the sun; and the Chamber of Deputies is besought to carry out their policy of protection to home industry by stopping all openings by which sunlight had been allowed to enter houses. The imaginary petitioners go on to argue that if it were objected that sunlight is gratuitous, the point would be inconsistent; for protection had been favored on the ground that foreign products approximate more nearly than home products to the character of gratuitous gifts!

<sup>1</sup> New York, 1880.

<sup>2</sup> *Economic Sophisms*, First Series, Chap. VII.

Thus, brilliantly, with fable and irony, the masses are appealed to; but all too often the criticism, that the opponent's argument is not fairly stated, applies.

His most ambitious work and his attempt at a more positive and constructive contribution was the *Harmonies Économiques*. The first volume alone was completed, appearing in the year of the author's death, 1850.

**Economic Harmony.** — 1. *Value.* — Bastiat devotes no chapter to Production: to him economy lies in exchange and Economics is the study of exchanges. Wants, efforts, satisfactions, — this is the round. But men commonly obtain satisfaction by giving something in exchange for what is desired. This involves the question of value, and, as with Carey, value is Bastiat's starting point. He founded his theory upon his definition of this term.

Bastiat criticizes various theories of value which had preceded him: utility, scarcity, labor, difficulty of acquirement, estimation, or judgment, are all one-sided, though not totally wrong, as bases for determining value. Both the utility theory of Say and the labor theory of Ricardo err in placing value in the material of things. There are two kinds of utility: gratuitous and onerous. The former consists of the materials and forces which are the gift of nature, and nothing can be exacted in exchange for it. Onerous utility lies in a service of man to man, and demands a service in return. Now to place value in matter would lead to the conclusion that the gratuitous utilities of nature may confer value. This would mean that landowners would have property in the gratuities of nature, something which Bastiat in his desire to defend the present order against the Socialists will not admit. It would be "as little justifiable as comprehensible." This same error, too, would deny productivity to services which do not result in material things. Wants and satisfactions are not sufficiently commensurable to serve as determinants of value, but he grants that utility is the basis of value if only we do not make it an intrinsic property of things. Ricardo's necessity for excepting goods whose sup-

ply is absolutely limited, Bastiat argues, shows that a general law based on labor cost is impossible. Moreover, he asks, how are fluctuations in the value of things to be accounted for if their value is determined by the labor expended upon them?

Bastiat would not destroy the labor and utility theories, but would correct one-sidedness by uniting them. He comes very near to the labor-cost theory when he holds that value lies in "effort," but he would make effort a broader term than labor, though it is not very clear just what it includes. In exchanging services or goods only effort or onerous utility is considered, as natural forces are gratuitous. The difficulty arising from fluctuation in the value of stored-up labor he meets by substituting for effort expended the effort saved to the recipient or purchaser, an idea apparently suggested by Adam Smith's shift from the labor-cost to the labor-exchange point of view.<sup>1</sup> But to him this means a service. Hence Bastiat's formula: "Value is the relation of two services exchanged." The effort saved, or service, is the product of one man; the want and its satisfaction are felt by another; the service, then, commands a compensation in the shape of some counter service.

2. *The Interests of Labor and Capital; Land Value.*—Although it is not material, value may pass into material. It is then capable of accumulation, that is to say, of becoming capital. But it is to be noticed that "where value has passed from the service to the product, it undergoes in the product all the risks and chances to which it is subject in the service itself." It may rise or it may sink until it departs altogether, as might have happened to the service. The tendency, however, of value fixed in a commodity, that is to say in capital, is to sink. "The man who makes a cup to-day," says Bastiat, "for the purpose of selling it a year hence, confers value on it, and that value is determined by that of the service—not the value which the service possesses at the present moment, but that which it will possess

<sup>1</sup> See above, pp. 202 f.

at the end of the year." Now owing to constant industrial improvements the probability is that the cup can be produced cheaper at the end of the year than now. Thus, according to Bastiat, capital, which is only accumulated services, stands at a disadvantage compared with labor, that is, present services. As society progresses, — and Bastiat thinks of it as always progressing, — capital continues to occupy a more and more disadvantageous position with regard to labor. Labor has then no reason to be dissatisfied.

The rent of land, too, is only a return for past services. The original and indestructible powers of the soil are not, as Ricardo would have us believe, the source of rent. No remuneration can be demanded for these, because they are the gift of nature. Land value represents previous services, such as the clearing away of forests, drainage, building of fences, fertilizing the soil, etc. But formerly, on account of the greater imperfection of labor's methods and appliances, it required more labor than would now be necessary to render such services. The landlord receives a return only for the present value of his improvements. Sooner than give him more, people will take up new land and improve that. "This shows how empty," says Bastiat, "are the declamations which we hear continually directed against the value of landed property. That value differs from other values in nothing — neither in its origin nor its nature, nor in the general law of its slow depreciation, as compared with the labor which it originally cost."<sup>1</sup>

Wage-earners have every reason to be satisfied with their lot. Production ever becomes easier and more abundant, and the share they receive is continually augmented. From this "amelioration of the laborer's lot found in wages themselves and in the natural laws by which wages are regulated," Bastiat draws two conclusions and one corollary.

"1st. The laborer tends to rise to the rank of a capitalist and employer.

"2d. Wages tend to rise.

<sup>1</sup>*Harmonies Économiques*, I, p. 150.

"Corollary — The transition from the state of a paid workman to that of an employer becomes constantly less desirable and more easy."<sup>1</sup>

According to Bastiat, the postponement of consumption is a service rendered by the capitalist for which he deserves payment or interest.<sup>2</sup> It might be supposed, then, that capitalists would have ground for complaint, but this is not so. Harmony of interests is complete. Capitalists receive a smaller relative share of the produce, but a greater one absolutely, on account of the growth of capital. Bastiat illustrates this by letting the figures 1000, 2000, 3000, and 4000 represent the total production of society at different epochs. The division between laborer and capitalist would then, he maintains, take place in somewhat the following manner: —

	TOTAL PRODUCE	SHARE OF CAPITAL	SHARE OF LABOR
First period . . . . .	1000	500	500
Second period . . . . .	2000	800	1200
Third period . . . . .	3000	1050	1950
Fourth period . . . . .	4000	1200	2800

The share of the capitalist, it is seen, descends from 50 per cent to 40, 35, and 30 per cent, while that of the laborer rises from 50 per cent to 60, 65, and 70 per cent.

The proof that the relative share of capital decreases Bastiat finds in the fact that the rate of interest continues to grow lower as society advances. On the other hand, the absolute share of capital must increase, because capitalists would destroy or consume a part of their capital if they could obtain more for a part than for the whole.

It does not appear to occur to Bastiat that the profits of capital may decrease because the aggregate product of labor

<sup>1</sup> *Harmonies Économiques*, II, p. 73.

<sup>2</sup> For Bastiat's theory of interest and a criticism see Böhm-Bawerk, *Capital and Interest*, Bk. IV, Chap. III.

and capital is less. Let the supposition be made that a given amount of capital and labor produce at one period 1000 and at a later one only 800. Let the share of capital in the first period be 500 and in the second 450. The absolute share of capital would then have decreased, while its share relatively to labor would have increased. This supposition is quite as possible as that of Bastiat. It might be said that in the beginning of a society the most productive employments of capital and labor were sought out, and that afterwards capital and labor were obliged to perform work which would formerly have been regarded as unprofitable. Bastiat makes no such supposition as this, nor will he allow the thought of it to enter his mind, because it would interfere with his pre-supposed harmony and divine order of affairs.

How marked the contrast between Bastiat's general scheme and Ricardo's! The latter believed that prices of raw materials and subsistence rise, and with them rents, this rise being, in a sense, at the expense of the other shares in distribution. But Bastiat, like Carey, maintained that the shares of both labor and capital (including land) increase, there being a more rapid increase in wages.

3. *Population.* — On the subject of population Bastiat is decidedly confused and inconsistent. Thus in the first part of his *Harmonies* he sets out to deprive the Malthusian principle of all pessimistic aspects, arguing that the augmentation of population increases the number and effectiveness of exchanges, and hence results in a larger share in the gratuitous gifts of nature. But in the second part, in his chapter on Population, he takes the more common view. Like Malthus, he hopes that the standard of living of the laboring classes may rise, so that their numbers will increase less rapidly. And he maintains that all sensible people follow the Malthusian idea, in postponing marriage until a competency has been acquired.

4. *Government Intervention.* — As everything in the field of value and distribution tends to work out harmoniously if left alone, Bastiat considered that the science of government

is exceedingly simple. Government performs its functions by the exercise of force, and there is only one place where it has in his opinion a moral right to exercise force. That is in establishing justice. The action of government is "essentially limited to the maintenance of order, security, and justice. All action of government beyond this limit is a usurpation upon conscience, upon intelligence, upon industry; in a word upon human liberty."<sup>1</sup> This, of course, begs the question as to the justice of present arrangements, and assumes the state of natural harmony of which he conceived, to exist in fact.

**Bastiat and Carey.** — To a great extent Bastiat stood on the shoulders of Say, Dunoyer, and the American, Carey. List, too, might be mentioned in this connection. There has been some considerable dispute between the friends of Carey and those of Bastiat<sup>2</sup> as to which of the two originated their system of harmony. Bastiat has been accused repeatedly of literary theft. Their doctrines and even their language are undoubtedly often strikingly similar. The reader will remember Bastiat's theory that the share of labor increases both relatively and absolutely, while that of the capitalist increases absolutely but decreases relatively; and how he illustrated it mathematically. This may be compared with the following paragraph, taken from Carey's *Social Science*: —

"In the early period of society, when land is abundant and people are few in number, labor is unproductive, and of the small product, the land-owner or other capitalist takes a large proportion, leaving to the laborer a small one. The large proportion yields, however, but a small amount, and both laborer and capitalist are poor—the former so poor that he is everywhere seen to have been a slave to the latter. Population and wealth, however, increasing, and labor becoming more productive, the land-owner's share diminishes in its proportion, but increases in its amount. The laborer's share increases not only in its amount, but also in its proportion, and the more rapid the increase in the productiveness of his labor, the greater

<sup>1</sup> *Op. cit.*, I, p. 4.

<sup>2</sup> Dühring and Lange. In the *Journal des Économistes* for 1851 Carey and Bastiat themselves crossed swords on the matter.

is the proportion of the augmented quantity retained by him; and thus, while the interests of both are in perfect harmony with each other, there is a constant tendency towards the establishment of an equality of condition." <sup>1</sup>

Bastiat and Carey also have some similar ideas as regards value and utility; and there is a close parallelism in their theories of the origin of land value. Carey criticizes Bastiat's definition of value, it is true, but they both proceed from a criticism of the Classical labor cost theory, and have an optimistic justification of the existing social order in mind.

Though some have argued that both writers were quite original in reaching the same conclusions, it seems improbable that this is the case. It is the general consensus of the best opinion that Bastiat was more deeply indebted to Carey than he would admit, and that he erred in not giving Carey credit in connection with his statement of the law of distribution and his discussion of land value. On the general theory of value, however, Bastiat's main ideas seem to have been formed independently of Carey.<sup>2</sup> Carey impresses the reader as decidedly the more original, and on the whole his work antedated Bastiat's. It will be remembered that his *Principles of Political Economy and Past, Present, and Future*, containing the essentials of his doctrine, appeared in 1837 and 1848; while Bastiat's constructive work came in 1850.

**Criticism.** — In general criticism of Bastiat's work it is to be observed that he was greatly influenced by the controversial atmosphere in which he lived. His doctrines appear unduly warped by his propaganda against protectionism and Socialism, while underlying all his argument is the unsound idea that the organization of society under *laissez-faire* competition is the most perfect that can be effected or even conceived of.

His reasoning on land value is quite erroneous. To hold that the value of land equals the expenses of rendering it accessible, clearing, fencing, etc., is untenable in the light

<sup>1</sup> McKean's ed., p. 31.

<sup>2</sup> See Von Leesen, *Frédéric Bastiat*, pp. 155 f.



of facts. For example, much land is now worth far less than such expenditures. His view overlooks the fact that such outlays are made with the idea that they will pay for themselves, and something more — that long ago they have been replaced and ceased to operate. The value of a good Illinois farm or a New York lot is far greater than such expenses. It is vain to argue that even the gifts of nature cannot be appropriated and be made the basis of a payment to the owner. That is not the way to meet Socialistic attacks.

In his *Sophisms* Bastiat cries: You protectionists cannot apply your theory as a general one. As between individuals, families, communities, and provinces you accept free trade. But you say the political economy of individuals is not that of peoples! And just here appears *his* absolutism. He does not regard national lines. He follows to the extreme the cosmopolitanism of the Classical School, many of the other doctrines of which he attempts to rectify.

Bastiat's limitations are well exhibited in his theory of value. The words "efforts" and "services" he uses almost as fetishes, but they explain nothing. If service means more than labor, how much more? What determines the value of the service? Bastiat gives us no adequate answer. Moreover, by confining himself narrowly to exchange value he leaves out of consideration the important phenomena of value in use and utility.

On account of its shallowness and manifest disregard of certain facts of social life, Bastiat's writing has had little influence on the leaders of economic thought. Its popular influence has, however, been remarkable, and it is this which has justified the devotion of so much space to it. It owed its existence to a great extent to the extreme free trade party in England, called on the Continent generally the Manchester Party, from the city where it had its stronghold. But Bastiat's system has also reacted upon this party, leading it to greater extremes in doctrine. In Germany a party was also formed between the years 1840 and 1850, opposing all interference of government and accepting Bastiat without re-

serve. Prominent members of this party were Prince-Smith, an Englishman by birth, J. Faucher, Victor Böhmert, and Max Wirth.

Bastiat did not deny that the poor and unhappy existed, though he found the ground for their condition in a mere lack of freedom, and bade the laborer be content and grateful to the capitalist. His followers in Germany went still further. In their admiration of our present social organization, they denied the existence of a social problem. The world looked so happy to them that they could find no poor man in it. It became at one time quite the thing to speak of the *so-called* poor man. Cliffe Leslie says: "Political writers and speakers of this school have long enjoyed the double satisfaction of beholding in themselves the masters of a difficult study, and of pleasing the powers that be, by lending the sanction of science to all established institutions and customs, unless, indeed, customs of the poor. *Instead of a science of wealth, they give us a science for wealth.*"<sup>1</sup>

The optimistic side of Adam Smith's political economy is, to the cursory reader, at least, the most striking. Of such a nature is his doctrine that the unrestrained action of individual self-interest leads of itself to a happy and harmonious social order. If this and similar ideas of Adam Smith are separated from those parts of his work which modify and limit them, we have indeed a happy optimism.

Formerly man had been taught that this life was a struggle into which peace and good will could be brought only by sacrifice and generous self-denial; and he had been instructed to look forward to a future state as one which would harmonize adverse interests and render duty uniformly agreeable. But thinkers like Carey and Bastiat maintained or implied that the reign of happiness had not appeared on earth largely because man had perversely restrained himself and had not systematically and scientifically pursued the policy of self-interest.

<sup>1</sup> See his article in the *Fortnightly Review*, for Sept. 1, 1873, on "Political Economy in Germany."

### 3. OTHER EXPOSITORS

THUS far the discussion of the followers of Adam Smith has served to emphasize the development of two divergent lines of thought with regard to the working out of economic forces. One has brought out the existence of conflict, and the harsher possibilities; the other has seen ultimate harmony and beneficence in all. As already stated, the pessimistic tone of some has been due rather to the mode of their statement than to the logic of their thought; and the classification into optimists and pessimists does not have the deepest and most clear-cut significance in economic theory. Without attempting to push it further, then, other followers of the Smithian Economics may be considered without regard to the helpfulness of their point of view. Indeed, it would be difficult to classify a number of them on that basis.

And first a thinker in the direct line of evolution of the English Classical School deserves attention, one who wrought independently, but on the whole within the framework of Smith's doctrines as developed by Ricardo.

**a. IN ENGLAND**



## CHAPTER XV

### SENIOR AND THE ABSTINENCE THEORY

NASSAU WILLIAM SENIOR (1790–1864) by exact and acute reasoning made such additions to economic theory that a chapter must be devoted to him. During the greater part of his life he was outside academic circles, and he did not write a complete treatise; but he brought so keen and rigid an analysis to bear that his limited application was unusually fruitful. He was for a time professor at Oxford, and was a member of the Royal Commission of 1832, established to examine the operation of the poor laws and report remedies.

His principal work<sup>1</sup> was *An Outline of Political Economy* (1836) which appeared in the *Encyclopedia Metropolitana*, but was also published separately. To this outline attention will be largely confined; and no attempt will be made to present a complete statement of Senior's view. Only those portions of his work in which he made distinct contributions will be discussed.

**The Scope of Political Economy.** — First is to be noted his idea of Economics as a science. In his own words: "The subject treated by the Political Economist . . . is not Happiness, but Wealth; his premises consist of a very few general propositions, the result of observation, or consciousness, and scarcely requiring proof, or even formal state-

<sup>1</sup> Other writings of importance are: —

*An Introductory Lecture on Political Economy*, 1827.

*Three Lectures on the Transmission of the Precious Metals and the Mercantile Theory of Wealth*, 1828.

*Two Lectures on Population*, 1831.

*Three Lectures on the Cost of Obtaining Money, and of Some Effects of Private and Government Paper Money*, 1830.

*Three Lectures on the Rate of Wages*, 1831.

*Four Introductory Lectures*, 1832.

Summary of the Ambiguities in the terms of Political Economy, appended to Whately's Logic.

ment; . . . and his inferences are nearly as general, and, if he has reasoned correctly, as certain as his premises."<sup>1</sup> Senior went very far in narrowing the scope of the science and in making it an abstract and deductive one, and in this his influence on later writers was considerable, *e.g.* J. S. Mill and Jevons. He would have had the economist refrain from a single word of advice and keep clear of morals and political science. Then, within his proper field, he must confine himself to deductions from a few postulates.

Senior allowed Political Economy four postulates: (1) a universal desire to obtain more wealth with the least sacrifice; (2) the Malthusian principle of population; (3) "that the powers of Labour, and of the other instruments which produce Wealth, may be indefinitely increased by using their Products as the means of further Production"; (4) the law of diminishing returns from land.<sup>2</sup>

In his subdivision of the field of the science it seems clear that he foreshadows Mill's distinction between the laws of production and distribution.<sup>3</sup>

Senior's emphasis of the need for accurate definitions and his criticisms of predecessors on this score are noteworthy.

**Value.** — Some of his best work lies in the field of value, where the influence of Lauderdale is apparent, and especially in the analysis of cost of production. Value he defines as "that quality in anything which fits it to be given and received in exchange." The forces which determine it fall into two sets: the demand and supply of the one good, and the demand and supply of that for which it is exchanged. Supply, however, is somewhat unsatisfactorily defined as equaling the obstacles which limit quantity. Senior is here filled with the idea that it is merely limitation of supply, as such, that functions in value, and justly criticizes Ricardo's classification<sup>4</sup> for omitting this idea in the case of reproducible commodities.

<sup>1</sup> *Political Economy* (reprint, 6th ed., 1872), p. 2. See also *Four Introductory Lectures* for his views.

<sup>2</sup> *Ibid.*, p. 26.

<sup>3</sup> *Ibid.*, p. 3.

<sup>4</sup> Above, p. 255.

It is one of Senior's merits as a thinker that he sought to free economics from circuitous logic. This is manifest in his effort to make the concepts of demand and supply which he used, independent of price, and his idea of supply would have made it a much more significant factor than a mere price-determined quantity.

**Abstinence and Capital Formation.** — Just here comes Senior's great contribution, the concept of abstinence as a cost of production. With equal competition goods sell for their cost of production, which cost equals labor plus the abstinence of the capitalist.<sup>1</sup> Abstinence is "a term by which we express the conduct of a person who either abstains from the unproductive use of what he can command, or designedly prefers the production of remote to that of immediate results."<sup>2</sup> In the formation of capital "some delay of enjoyment must in general have reserved it from unproductive use." This cost, then, as well as the sacrifice of labor, is an obstacle limiting production, and so, through supply, entering value.<sup>3</sup>

The significance of this new factor is apparent. Ricardo, with some misgivings, had in his formal writings left labor as the determinant of exchange value, profits being a sort of residual claimant. His followers, James Mill and M'Culloch, took the bull by the horns and expressly reduced all to labor, including even the growing value of wine or trees. Lauderdale had attacked the notion, making capital an independent factor which replaces labor rather than supports it; and Malthus made profits an independent cost along with wages. But there had been no analysis which would make capital coördinate with labor as a cost factor in production, and the labor theory was for the time dominant.

<sup>1</sup> *Political Economy*, p. 24. Senior, however, confuses value of labor (wages) with labor pain, the latter being Ricardo's idea.

<sup>2</sup> *Ibid.*, p. 58.

<sup>3</sup> Böhm-Bawerk in his *Capital and Interest* (p. 285 of Smart's translation) accuses Senior of making his interest theory part of a theory of value in which he explains the value of goods by their costs; and concludes that as some goods are not reproducible, it is but a partial theory. He overlooks Senior's express insistence on limitation of supply as distinguished from cost of production.



Senior may have caught the idea of abstinence from G. P. Scrope, who wrote three years prior to his article. Scrope states that the profit of the owner of capital is "a compensation to him for *abstaining for a time from the consumption* of that portion of his property on his personal gratification."<sup>1</sup> However that may be, the development and application of it are his own, and one of his chief claims to lasting fame rests on this basis which he laid for the independent determination of interest.

**Cost vs. Expense; Past vs. Present Labor.** — Such being the cost of production according to Senior, it must be noted that he distinguishes "cost" from "expense," the former referring to "conduct," — "exertion" and "sacrifice," — the latter to reward for such conduct in the shape of wages and profits.

Finally, Senior emphasized a point generally thought of in connection with Jevons, namely, the fact that it is not *past* labor which enters into the determination of value; but that it is the amount of sacrifice that production would require at the time of exchange.<sup>2</sup> Ricardo and James Mill are criticized here.

**Utility and Demand.** — But Senior did not leave the demand side without adding something. Demand, he shows, rests on utility, or the "degree" in which a thing is desired. And he comes near to stating a law of diminishing utility. "Not only are there limits to the pleasures which commodities of any given class can afford, but the pleasure diminishes in a rapidly increasing ratio long before those limits are reached. Two articles of the same kind will seldom afford twice the pleasure of one, and still less will ten give five times the pleasure of two."<sup>3</sup>

Limitation of supply, however, remained with Senior the

<sup>1</sup> *Principles of Political Economy deduced from the Natural Laws of Social Welfare and applied to the Present State of Britain*, p. 146. (London, 1833.) Scrope lays great emphasis upon time.

<sup>2</sup> *Pol. Econ.*, p. 98. His statement is better than Jevons', as the latter writer confines himself to the negative part of it.

<sup>3</sup> *Ibid.*, p. 12.

chief factor in value; and in stating the interrelation of demand and supply he says that the utility or demand of a thing "is principally dependent on the obstacles which limit its supply."

**Monopoly Theory.** — Closely connected with the theory of value is that of monopoly, and Senior's treatment of monopoly is notable.<sup>1</sup> He opposes the idea of monopoly strictly and logically to that of "equal competition": if every one has free and equal access to the factors of production, there is no monopoly; but wherever this is not true an element of it exists. Such is the case whenever land plays a part: commodities produced with the aid of natural agents are monopoly products, and the person who appropriates a natural agent is a monopolist.

Senior divides monopolies into four classes. First come those which are not exclusive, but exist because a producer has the advantage of lower costs, as, for example, Arkwright in producing yarn. This assumes the power to increase the product indefinitely. Secondly, there are absolute monopolies, where no increase is possible, as in the case of Constantia wine. The third case lies between these two, being an absolute monopoly, but the supply is increasable. A copyright illustrates it. Finally, there is the "great monopoly of land." Here, as already suggested, the power of appropriation is limited and competition not equal.

Evidently several different points of view are involved in this classification. But a general solvent may be found in the idea of surplus value or, better still, in differential advantage. A feature common to all classes of monopoly is the fact that income more than covers cost. Thus rent is a surplus above costs; hence Senior makes rent a monopoly return.

The weakness of defining monopoly in negative terms as being the absence of equal competition, is apparent. Perfectly equal competition is rare, and elements of differential advantage abound on all hands, so that such a definition

<sup>1</sup> See Ely, *Senior's Theory of Monopoly*, Amer. Econ. Assoc. Pubs., February, 1900.

would make monopoly the rule. The essential error of Senior's position, however, lies in the confusion of differential advantage with control over supply. The one is price-determined; the other price-determining.

**Theory of Wages.**—In his theory of wages Senior's treatment is characteristic. Some suggestive analyses and distinctions are made, and the problem is clearly stated; but, after much digression, we are taken little further than the statement: the proximate determination of wages depends on "the extent of the fund for the maintenance of labourers, compared with the number of labourers to be maintained." With these words Senior probably called into being the wages-fund doctrine which lies concealed in the writings of Smith and Ricardo.<sup>1</sup>

**Increasing Returns.**—Senior was, on the whole, an optimist, and this shows itself in his doctrine concerning increasing returns from manufacturing.<sup>2</sup> His third postulate was that labor and capital may be indefinitely increased in productivity by using their products as the means of further production. He says, "Every increase in the number of manufacturing labourers is accompanied, not merely by a corresponding, but by an increased productive power." There is a "less proportionate cost,"—a "constantly increasing facility" in working up materials.

No explanation of this fact is given, however, and Senior contents himself with citing decreased prices for manufactures. Though he does not make the point, yet his discussion of division of labor and capital in the same section suggests some explanation. Thus the use of tools and machinery makes more power available and gives indefinite possibilities of improvement.

According to Senior, two results flow from increasing returns in manufactures. (1) An increased demand means lower prices. With a rise in demand the price of bread

<sup>1</sup> *Pol. Econ.*, pp. 154, 174, 195 f. For discussion see Cannan, *Production and Distribution*, pp. 267 ff.; Taussig, *Wages and Capital*, pp. 197–203.

<sup>2</sup> Ely, *Senior's Theory of Monopoly*, pp. 83, 86, 119, 74.

would rise; but under similar circumstances the price of lace would fall, improved processes being made available. (2) A tax on manufactures by decreasing the demand and the output raises prices by an amount greater than that of the tax.

**Emphasis of the Subjective.** — One of the most striking general impressions that the careful reader of Senior gets is his emphasis of the subjective element. In this he differs from most of his predecessors. This is seen in the relatively greater importance he attaches to utility. It shows itself in his inclusion of personal elements in capital. But chiefly it appears in his treatment of costs. His was a cost theory of value, but his costs were psychical and subjective;<sup>1</sup> consisting as they did in the laborer's sacrifices and the abstinence of capitalists.

Senior also further developed the Ricardian theory of foreign trade.

**Critical Estimate.** — In criticism of Senior's work it may be truly said that it shows lack of constructive power, and even of intellectual endurance. His critical powers were remarkable. His logical and keenly analytical mind tears down, and then — we are disappointed. He is on the verge of great truths, but does not grasp them. Thus he formulates no law of monopoly price, nor does he realize the significance of a law of increasing returns. He does not grasp the concept of final or marginal utility. He does not give us a valid theory of wages. Yet in all these matters he makes more or less definite suggestions.

Among his more positive errors the following only will be remarked upon, namely, the limitation of his first premise, which serves to bring into prominence the unduly abstract character of much of the Classical political economy; the uncoördinated character of his classification of the factors of production — land, labor, abstinence; his suggestion that the difference between rent and profits ceases when capital

<sup>1</sup> Though he says (p. 112) that we seldom go farther back than the manufacturer's expenses.

goods become the property of another than the abstainer;<sup>1</sup> and his inconsistency in treating the relative amount of the social product received by the factors of production, — making the rate of profit a cause determining capital's share, for example.<sup>2</sup> His definition of monopoly has proved to be inexpedient.

<sup>1</sup> *Pol. Econ.*, p. 129.

<sup>2</sup> Also the period during which capital is advanced is made another cause, yet this period is stated to depend in part upon the rate of profit. Inconsistency is also shown in statements as to the relative importance of the rent share.

*b.* THE EXPOSITORS OF THE ENGLISH CLASSICAL POLITICAL ECONOMY OUTSIDE OF ENGLAND: 1776-1850



## CHAPTER XVI

### SAY, RAU, AND OTHER CHIEF EXPOSITORS IN GERMANY AND FRANCE

#### GERMANY

It is the purpose of this and the following chapter to give some account of the more important of those economists in Germany and France who, on the whole, may be classed as followers of Adam Smith. Without making a sub-classification it may be remarked that some of those to be mentioned showed considerable originality in exposition or criticism; a few even made additions to the Smithian economics: the point is that in the more essential matters they accepted the lead of the early British economists, and especially of Adam Smith. Among the following authors may be found men whose sound understanding and solid merit were greater than those of some to whom more distinct attention has been devoted, the reason being that the peculiarity, novelty, or prominence gained, warrants more separate treatment.

It may well be observed in advance that the Continental economists have frequently gone directly back to Smith, while rejecting in whole or in part the development of English thought by Ricardo and his group.

The close of the eighteenth century, as already indicated, found German economic thought in control of the professors of Kameralistic sciences. The Physiocrats had made some few converts, and the great upheavals of the time were not without influence; but it remained for Adam Smith's teaching to give the great impulse to a new and truer conception of economics.



It was not until the year 1794, when the first good translation of the *Wealth of Nations* by Ch. Garve appeared, that Smith's work was much known; and even in 1796 Sartorius complained, in the introduction to his *Handbuch*, that Smith had exerted but little influence. But shortly after 1800 all this was changed, and for a generation or more English political economy was decidedly influential, if not dominant.

The German economists who wrote between 1800 and the rise of the Historical School, about the middle of the century, fall into three groups: the strict adherents of Smith; those who followed him to a greater or less extent, but with independent criticism; and those who were more fundamentally opposed. The last group will be discussed when Smith's opponents and critics are taken up.<sup>1</sup> As between the first two groups it is difficult in some cases to place a man; but, taking everything into consideration it may be said that Kraus (1753-1807), Sartorius (1766-1828), Lüder (1760-1819), Hufeland (?) (1760-1817), and Lotz<sup>2</sup> (1770-1838) did little more than state Smith's case; while, on the whole, Soden (1754-1831), Jakob (1759-1827), Nebenius (1784-1857), H. von Thünen, and Rau (1792-1870) are the more important of those who followed, but criticized or supplemented in important ways.

It is beyond the scope of this chapter to give an account in detail of these writers, and differences among them make close generalization difficult. Thus Kraus, Soden, Hufeland, and Lotz followed Smith in their advocacy of free trade, while the others recognized national lines to some extent. Or, on the score of rent, only Jakob, Hufeland, and von Thünen showed much independence of the Classical doctrine.

Of the various economists just mentioned the best known are doubtless Nebenius, von Thünen, and Rau. Nebenius won fame with his work *Der Oeffentliche Credit* (Public

<sup>1</sup> Below, pp. 367 ff., 485 ff., 504 ff.

<sup>2</sup> Lotz shows some independence in treating value: *Revision der Grundbegriffe der Nationalwirthschaftslehre*, 1813, III, pp. 3-7.

Credit), published in 1820. Here he discussed the nature and function of capital, money, and credit, together with foreign exchange and public debts; and his contributions appear noteworthy. In general economic theory his chief difference from Smith consisted in his belief in the expediency of more state intervention. He was active in promoting the German *Zollverein* (customs union), thus favoring a protective tariff. Nebenius held Smith's ideas on productive labor, and he appears to have confused the relative with the absolute amounts of wages, profits, and rent.

Heinrich von Thünen is but briefly mentioned here, for his thought forms the topic of the next chapter. His book, *Der isolirte Staat* (The Isolated State), the first volume of which appeared in 1826, enriched German economic literature with one of its most original works. Through his brilliant deductions in the field of distribution he consistently worked out a marginal productivity analysis of wages and interest, in addition to arriving at a rent theory similar to Ricardo's, with a more just emphasis of the situation factor.<sup>1</sup> Von Thünen's warm sympathy for labor led him to criticize Smith's theory of wages, emphasizing productivity and humanitarian considerations. In these matters his views led him to favor a considerable degree of state activity in social reform.

Karl Heinrich Rau does not merit attention so much for original contribution to theory as for effective exposition. Through his *Lehrbuch der Politischen Oekonomie* (1826)<sup>2</sup> he had considerable influence not only in Germany, where it was the leading work during the second third of the nineteenth century, but abroad. It is encyclopedic, practical, and admirably adapted for the use of government officials. In an earlier writing, *Ansichten über Volkswirtschaft* (1821),

<sup>1</sup> Ricardo's work was not much known in Germany till after Baumstark's translation in 1837. Thünen, however, had read in Ricardo as early as 1826.

<sup>2</sup> The last edition prepared by Rau appeared in 1862-1868. Vol. I, *Grundsätze der Volkswirtschaftslehre*, 1868; Vol. II, *Grundsätze der Volkswirtschaftspolitik mit anhaltender Rücksicht auf bestehende Staatseinrichtungen*, 1862; Vol. III, *Grundsätze der Finanzwissenschaft*, 1864.

he showed some appreciation of the historical viewpoint; but later reacted. His work is, in the main, little more than a compendium of current and preceding doctrines, enriched with historical, statistical, and technical information. It is a combination of Kameralistic erudition with the political economy of Adam Smith. This fact appears in the subdivisions adopted: economic theory, economic policy, the science of finance.

But this suggests Rau's solid merit. In his time it was a service to stress as he did the distinction between theory of science and policy or art. Rau believed that the latter varies with local conditions; while the former is more exact and mathematical. Other merits are:<sup>1</sup> his well-balanced view of value in use and value in exchange; his distinction between concrete and abstract value in use; his attack upon the idea that the demand for labor depends upon the amount of capital.

A notable error which Rau, following Adam Smith, maintained, was his narrow notion of the productivity of labor: personal services he defined as unproductive.

Though, to the reproaches of Friedrich List, Rau made the claim that he had used the historical method, recognizing stages in economic development, he was quite far from the evolutionary spirit of the "historical school," his idea of stages being rather mechanical.<sup>2</sup>

The service rendered by the whole early group of German economists may be stated as follows: (1) The British emphasis upon labor was corrected by an insistence upon the importance of land as a factor in production; (2) subjective factors were given more attention, the productivity of "immaterial labor" being insisted on by some, and the significance of immaterial things like culture and morals generally upheld; (3) Ethics was taken into their point of view; and (4) a greater place was made for state activity, the indi-

<sup>1</sup> Roscher, *Geschichte d. National Oekonomik*, p. 858.

<sup>2</sup> Similar objections might be made to similar claims set up by apologists of the classical economists on the score of inductive method, appreciation of history, etc.

vidualistic teachings of the Classical economists being limited. Nearly without exception the German economists were influenced by Kameralism to the extent of recognizing the political duty of the state to take an important part in economic life for the sake of the common good.<sup>1</sup> (5) A step was also taken toward a separate analysis of entrepreneur's gains (Hufeland, Hermann, and Rau).

One notes a certain refreshing realism which is often found in the German writers, a fact that is no doubt due to the close connection between the German Universities and the state. To be sure, mere practical information may be associated with a lack of analysis or constructive power; but the leading German thinkers combined a wholesome practicality with a considerable amount of those qualities. The chief danger has lain in the possibility that the political aims of the sovereign may come to dominate scientific thought, that ethics may represent expediency, and that culture may cloak selfish ideals. It is to be hoped that never again will economic science be so subordinated to political policy as it was in Germany during the greater part of the nineteenth century.

#### FRANCE

The rise of political economy in England took place at a period when the study of that science was declining in France. The eminent services of the Physiocrats have been referred to. But their influence even in their own land was never great, and they left no permanent school. Accordingly when, in 1779-1780, the *Wealth of Nations* was translated, it soon took the lead, easily overcoming the opposition of some surviving Mercantilists. The French writers showed less independence and originality than the Germans, a fact partly attributable, perhaps, to their slight interest in economics. But in the field of Socialistic propaganda they displayed considerable activity and originality.

<sup>1</sup> Br. Hildebrand, *Nat. Oek. der Gegenwart u. Zukunft*, s. 32.

The chief writer to be mentioned is Jean Baptiste Say (1767-1832) whose *Traité d'Économie Politique*, published in 1803, did more to spread Smith's teaching than any other work. Say was a business man and politician who was led to study political economy by a perusal of the *Wealth of Nations*, thereafter devoting much of his life to service as a teacher and author in this field.

The first of Say's contributions to be mentioned, and the most important, lies in the field of definition and arrangement. Perhaps through suggestion from Turgot's *Réflexions* he divided the second edition of his treatise into books on Production, Distribution, and Consumption, thus originating an arrangement common in later textbooks. Exchange is not illogically treated under Production. Then he added to the idea that the national income falls into three shares — rent, wages, profits — so as to distinguish three corresponding factors of production in natural agents, labor, and capital. And, furthermore, he somewhat developed the analysis of the part played by capital. And here it is noteworthy that he criticized English economics for combining the gains of the undertaker and of the capitalist.<sup>1</sup> He himself distinguished their functions, styling the former "entrepreneur," thus bringing into use a term which has found permanent place in the science.

In a broader way he made some good suggestions favoring the use of the inductive method, and he argued that similar methods to those used in the natural sciences might be followed in political economy.<sup>2</sup>

The point in which Say is best known is his theory of markets (*Débouchés*).<sup>3</sup> He argues that the belief — held, for example, by Malthus and Sismondi — that there may be a general overproduction and glut is an unsound generalization from particular experience. Generalized, there can be no such thing, for selling is at the same time buying, and in producing, men are creating a demand for other goods.

<sup>1</sup> Bk. II, Chap. VIII, § 2.

<sup>2</sup> See introduction to *Traité*.

<sup>3</sup> Bk. I, Chap. XV.

And Say points out the bearing of this reasoning upon foreign trade: imports are no disadvantage, "for nothing can be bought from strangers, except with native products." As a matter of fact, there seems to be less merit in this idea, concerning which Say had exaggerated pretensions, than in some others; for it is but a little development over the Physiocratic teaching that, in buying and selling, goods exchange for goods.

No account of Say's work would be complete without some mention of his position on value. In Book II, Chapter I, he shows his clear appreciation of the importance of the subject to an understanding of Distribution. More than that, he puts the parts played by demand and supply in an advanced way, and gives more significance to utility than his English contemporaries. Utility is the inherent capability of things to satisfy human wants, and value originates in utility.<sup>1</sup> Price is the measure of value; value is the measure of utility, so long as the buyer pays no more than his estimation of the utility of his purchase. This makes room for costs, and Say slips over to the idea of normal value based on costs. He criticizes Smith's labor-cost theory, however, holding that "industrial" costs, including rent and profits, determine value. He also held that Smith had erred in narrowing economics by limiting wealth to material things: "He should, also, have included under it values which, although immaterial, are not less real, such as natural or acquired talents."<sup>2</sup>

Another point in which Say differed from his master was the greater extent to which he carried the *laissez-faire* doctrine. He would have allowed small place for state activity. The Frenchman was inclined to develop optimistic tendencies, and this is evidenced by his identification of public and private interests.

In addition to enlarging upon consumption in general, Say deserves mention for his distinction between saving and

<sup>1</sup> Bk. I, Chap. I.

<sup>2</sup> Introduction to *Traité*; also Bk. II, Chap. V, last paragraph.

unproductive consumption and the discussion of their results.

Among the just criticisms passed on Say are his lack of a broad historical training, his narrow — and jealous — criticisms of Ricardo, his excessive views on *laissez-faire* and taxation, his belief that wealth consists in a sum of exchange values, and his insistence that from the social point of view gross and net revenue are the same. Shutting his eyes to real social costs, he held that "the term *net* produce applies only to the individual revenue of each separate producer . . . ; but that the aggregate of individual revenue, the total revenue of the community, is equal to the gross produce of its land, capital, and industry."<sup>1</sup> The fundamental difficulty in Say's thought was a confusion between individual and social points of view. On the one hand, he treats costs as entrepreneur expenses, and wealth as exchangeable goods, both material and immaterial. On the other hand, he bases his whole analysis upon a conception of production, distribution, and consumption as social processes, processes which could be consistently applied to material wealth only.

The tendency has been to underestimate Say's services, perhaps because of his own exaggerated pretensions. He was no Smith nor Ricardo; but he was no mere popularizer. His ability was not that of the masters and may be called second rate, but that such as it was, it was not small, appears from the brief statement of his chief merits. The history of political economy would have been different without J. B. Say.

An excellent expositor of the Smith-Say doctrines was Joseph Garnier, whose chief work was done between 1848 and 1860.<sup>2</sup>

The only other French writers whom it falls within the province of this chapter to mention are Cournot (1801–1877) and Dunoyer (1786–1862). Augustin Cournot has to his credit the first extensive and important use of mathematics

<sup>1</sup> Bk. II, Chap. V.

<sup>2</sup> *Éléments de l'Économie Politique* (1848); *Traité de l'Économie Politique* (1860).

in economics;<sup>1</sup> a method which, though it has resulted in no important discoveries, undoubtedly has its uses, especially in the concise and accurate presentation of deductions and the representation of slight variations. Thus Cournot was the pioneer in showing the relation between small increments in commodities and those in price. Cournot also attacked some of the optimistic notions of the French economists.

Even more clearly than Say, Charles Dunoyer was one of the followers of Smith who developed his optimistic tendencies.<sup>2</sup> By the close of the first quarter of the century a group of Frenchmen began to write, who, while adhering to the most fundamental doctrines of Smith and Say, were more influenced by the social question which confronted them. This question was approached with some recognition of its ethics, but the tendency was to warn against government intervention and advise free play for economic forces. Dunoyer may be taken as the chief representative.

Though not so clear-cut as Say, Dunoyer shows more independence. He lays greater stress than Say upon immaterial wealth, dividing production according as men or goods are the immediate object. In the former case, the physician, the artist, the teacher, and the clergyman work on man's body, imagination, intellect, and morals, respectively. Industries producing commodities are divided into the extractive industries, trade and transportation, manufactures, and agriculture. Mere exchange, not resulting in material things, is not included as an "industry," though its necessity is recognized.

Labor, Dunoyer thinks, is the only productive factor. Value measures services, things exchanging according to the quantity of services stored in them. This is coupled with the belief that nature's services are not gratuitous but are to be

<sup>1</sup> *Recherches sur les Principes Mathématiques de la Théorie des Richesses*, 1838.

<sup>2</sup> De Tracy (1823), Chevalier (1845-1850), and Garnier (1860) are others. See Kautz, *National-Oekonomik*, II, 571 ff. Dunoyer's chief works are: *De la liberté du travail* (1845); *Notices d'économie sociale* (1870, posthumous); *Nouveau traité d'économie sociale* (1830). On Dunoyer see Villey, *L'œuvre économique de Dunoyer*, Paris, 1899.



reckoned as costs. Payment for land is merely interest on capital. Bastiat, who, as has been seen, had similar ideas, was avowedly influenced by these views.

Dunoyer dwells on the part which the heedlessness and viciousness of the lower classes play in causing their ills; and, while laying part of the blame on society, argues for *laissez faire*. He believes inequalities are necessary and advantageous to society, but thinks they may be ameliorated; the initiative, however, should come from the sufferers themselves, as they know their own needs best.

The most notable tendencies, then, of the relatively few important expositors of the British political economy in France, were to take extreme views on *laissez faire* coupled with a tendency toward economic optimism, Cournot being an uninfluential exception.

Closely related to the foregoing statement is the long-observed fact that French economic thought has been especially colored by a desire to defend existing social institutions against the attacks of the socialists. Cairnes, writing in 1857, said of Say that

"no one, I think, can peruse much of his writings without perceiving (and the same remark may be made of not a few French writers on Political Economy, and in particular of M. Bastiat) that his reasoning on economic problems is throughout carried on with a side glance at the prevalent socialistic doctrines. An inevitable consequence of this is—his object being quite as much to defend society and property against the attacks of their enemies as to elucidate the theory of wealth—that questions respecting the distribution of wealth are constantly confounded with the wholly different questions which the justification upon social grounds of existing institutions involves; and thus problems purely economic, come . . . to be complicated with considerations which are entirely foreign to their solution." (*Logical Method of Political Economy*, 2nd ed., p. 13.)

This fact helps to explain the tendency of French economists to treat rent, interest, and wages as being similarly determined shares, and their prevalent identification of rent and interest.

## CHAPTER XVII

### VON THÜNEN AND THE ISOLATED STATE<sup>1</sup>

JOHANN HEINRICH VON THÜNEN (1783–1850) was undoubtedly one of Germany's most brilliant theorists. Indeed, he may be compared to Ricardo in England, though his work was more technical and did not cover so important a part of the field of pure economic theory as money. The first volume of his one work was published in 1826 at Hamburg, and had as its full title: *Der isolirte Staat in Beziehung auf Landwirthschaft und Nationalökonomie, oder Untersuchungen über den Einfluss, den die Getreidepreise, der Reichtum des Bodens und die Abgaben auf den Ackerbau ausüben*<sup>2</sup> (The Isolated State in Relation to Agricultural and Political Economy, or Investigations concerning the Influence which Grain Prices, the Richness of the Soil, and Taxes, exert upon Tillage). The first part (*Abtheilung*) of the second volume (*Theil*) appeared in 1850; and not until 1863 was the work completed by the addition of a second part and the third volume. The whole work was printed as a third edition in 1875. It has been translated into French, and was finally honored by a place in a collection of the chief German economists.

In his general economic views von Thünen may be classed as a follower of Adam Smith, of whose work he was a student. In his youth he acquired a knowledge of practical agriculture and afterwards studied what might be called

<sup>1</sup> As secondary references on Von Thünen see Schumacher, *Johann Heinrich von Thünen, ein Forscherleben*, Rostock, 1868.

Büchler (M.), *Johann Heinrich von Thünen und seine Nationalökonomischen Hauptlehren*, Bern, 1907.

Helferich, "H. von Thünen," *Tübinger Zeitschrift f. Staatswissenschaft*, 1852.

Roscher's and Rambaud's histories of political economy.

<sup>2</sup> 2d ed. in 2 vol., 1842. The earlier page references refer to the first edition; later ones are to the third edition, which contained his complete work.

agricultural economics under Thaer. Later his now celebrated estate (*Gut*) of Tellow was purchased, and here he made careful investigations of the same subject. Thus apparently if ever a man was thoroughly equipped for a practical work on the economics of agriculture, it was von Thünen.

**Method and Plan of Work.** — In dealing with von Thünen the first thing that strikes one is his method. It appears in the very name of his book, the *Isolated State*. Contrary to the usual procedure, then, the examination of this writer's thought will be begun with some discussion of his method of thinking. His method was a contribution. Indeed, the book is one of the best illustrations of the abstract-deductive or "exact" method to be found down to this very day. The first section of the first volume is headed "Postulates," the second, "The Problem"; then come various changes in the postulates, and finally a comparison of the isolated state with the actuality. Not only is the method abstract and deductive; it is characterized by a use of mathematical formulæ, these involving, however, only arithmetic or simple algebra. No use is made of geometrical figures. It must be noted, however, that the later parts, which deal with labor, are not so purely abstract and deductive, and in dealing with the effects of climate, and the like, some modification of the method may be observed.

It is von Thünen's plan first to reduce the problem stated in his title to its simplest elements. Accordingly, he says: Let us imagine a very great city set in the midst of a fruitful plain, through which no navigable river or canal doth flow. The plain itself consists of like land, which is everywhere equally adaptable to cultivation. Far removed from the city, the plain ends in an uncultivated waste which separates this state from the world without. There is no other city than the great one set in the center of the plain, and it furnishes all artificers' products, while the means of life are drawn entirely from the surrounding plain. Metals and salt are produced near the city. (p. 1) "Now the question

arises: how will agriculture shape itself under these conditions, and how will the greater or lesser distance from the city affect tillage if it is carried on with the greatest skill and care?"

Under these assumptions the conclusion is drawn at once: "In general it is clear that in the vicinity of the city such products must be raised as have a great weight in proportion to their value (*Werth*) or are very bulky, and whose cost of transportation to the city would be so significant as to prevent their production in farther regions; so also with perishable products which must be fresh for use." (p. 2) Products of higher specific value would be drawn from greater distances. "On this ground alone pretty sharply drawn concentric circles will be found about the city within which this or that crop will form the chief product." In the first circle, for example, garden truck and milk would be chief products.

In this circle the land is the chief object of economy, while labor is relatively less important: "The price of milk must rise so high that the land for milk production can be of so much use through the production of no other thing. As the land rent (*Ackerpacht*) in this circle is very high, so increased labor is here little regarded. To gain the greatest amount of fodder from the smallest area is the problem." (3)

The estate of Tellow is made the basis for the greater part of his calculations, its prices and expenses being taken for granted by von Thünen.<sup>1</sup> A large part of the book is a study of how the economy of this estate would vary with distance from the imaginary city and with changes in prices and taxes. It is assumed that the gross product may be estimated in grain and that the price of live stock will vary with the price of the grain, — which is really true, says von Thünen, of a state not surrounded by others which are uncultivated and merely engaged in grazing (205). Further, it is

<sup>1</sup> Results obtained from records kept on his estate during the five years, 1810-1815.

assumed that the farm expenditures are made up of fixed percentages of money and of grain, this being done to simplify the determination of the effects caused by a change in grain prices.

All the various assumptions are adopted consciously, and the attempt is made to indicate what would be the result were they removed (209 f.). As to equality of soil, he points out that one could also have assumed a fixed price for grain and various degrees of fertility in a second isolated state; but this is unnecessary, for formulæ already developed enable the solution of such problems as, for instance, what rent will a farm of any given productiveness yield when grain is worth a given price per bushel. As to water transportation, it merely operates to make points accessible to it virtually so much nearer the city by reducing freights. And, with numerous little towns, each must be thought of as possessing its contributory territory, thus making it necessary for the central city to draw its supplies from greater distances and so increasing transportation costs. The price of grain in the small towns would depend upon the market price in the capital city (214).

While he did not fully realize the limitations of his method, von Thünen was partly aware of them. He wrote: "Just as a geometer reckons with points lacking in extension and planes without thickness, though neither actually exists; so we may take all adventitious circumstances and contingencies away from an active force, and only so can we recognize what share it has in the phenomena which lie before us" (215). He believed that it would be possible to draw up a chart for an entire land indicating the circles of different products; but while the same principle which controls the industry of an isolated state would be at work, the actual phenomena, he saw, would be quite different on account of the "endless number of other relations and circumstances" (215). In fact von Thünen never overcame all the difficulties which beset the attempt to introduce the complexities of life into his abstract state.

**Rent.** — Von Thünen's work in the field of distribution is most interesting, and he naturally gives much attention to rent. In a section falling under the discussion of the three-field system and immediately following one on the determination of the price of grain, von Thünen treats of the origin of land rent (181). The distant producer of rye, under the assumed conditions, must get  $1\frac{1}{2}$  thalers per bushel, for it costs him that much. On the other hand, the producer near the city could market his product for much less — perhaps  $\frac{1}{2}$  thaler; but the latter cannot be compelled to take a lower price than the former, nor can it be expected of him. For the buyer, one bushel has as much value (*Werth*) as another. What the near-by producer receives above cost is his gain. And "as this gain is permanent and returns yearly, so his land [*Grund und Boden*] yields an annual rent. The land rent of a farm arises, therefore, from the advantage which it has in its situation and in its soil over the worst farm which must produce in order to satisfy the demand" (182). The value of this advantage expressed in money or grain indicates the amount of the land rent. Rent is "the amount of the landlord's income which, after deducting interest on the value of the buildings, woods, and all valuable objects which can be separated from the land, remains and so belongs to the land as such" (14).

In a note, von Thünen intimates that other investigations, which he does not report, show that there are other grounds for rent, — that even lands of equal fertility and situation with regard to market can, when completely distributed, yield a rent (182).

It must be admitted that, while the significance of rent as a share in distribution is by no means so clearly indicated as is the case with Ricardo, this explanation of rent as such is clearer and more comprehensive than the latter's. If anything, von Thünen goes to the other extreme than that found in Ricardo's theory, emphasizing situation rather than fertility; and his statement is thus a valuable corrective of the Ricardian formulation.

In a concluding section on Taxes upon Land Rent (276) there is an excellent statement of the effects of taxation, improvements, etc., upon rent. The fact that rent is no fixed amount, but varies with prices and interest rate, is emphasized.

It is interesting to observe that von Thünen is not one of those who would minimize or overlook the difference between agriculture and manufactures, and so between rent and interest. "Agriculture," he writes, "differs essentially from industry (*Gewerke*) in that, when pursued on different kinds of soil, the same human activity is rewarded by very different production, whereas in industry the same activity and skill ever afford a similar labor product" (271).

**Price and Value.** — Starting with the assumption that it costs the equivalent of  $1\frac{1}{2}$  thalers to produce and transport a bushel of rye from the most distant circle, von Thünen supposes a fall in price to 1 thaler (177). Then the  $1\frac{1}{2}$  thaler land would cease to send grain to the city, including all land over  $23\frac{1}{2}$  miles away. Assuming the same population and demand, there would be a great lack of grain, and the price would at once rise: the price of 1 thaler is impossible. The following "law" is then deduced: "The price of grain must be so high that rent will not fall below zero upon the land on which the production of grain for the market is most costly, yet whose cultivation is necessary for the satisfaction of the demand" (179).

Another interesting point concerns the determination of the price of the products of labor on the farm (207). This must cover the outlays for food, etc., during the process, and for raw materials. If these materials must be procured from the city, the price of the product is only to a small extent determined by the local price of grain; but if the raw material — say flax — is produced on the farm, the price of the produced linen is largely determined by grain prices, since only a few articles for his home must be brought from the city and paid for by the farmer in money.

The place of demand is sufficiently emphasized, though

not one-sidedly. If the consumption and demand increase, the price rises, and further cultivation "intensive and extensive" (180) is the result. "As soon as this happens, production and consumption are again brought into equilibrium." Considering long-time periods, consumption is related to income: With equal production the rise or fall of grain prices will depend upon the increase or decrease of the income which the consuming class of citizens enjoy.

Finally the distinction between market price and average (*mittel*) price is made. Market price rarely, if ever, coincides with the average price, but constantly fluctuates about it. It is observed that the *Mittelpreis* alone has been the object of the investigation, the long-time point of view being taken. Smith's distinction between value in use and value in exchange is also followed (24, 128, 129).

**Wages and Interest: Surplus.** — Von Thünen was seriously concerned over what we call "the labor problem," and to its solution he devoted a large part of his thought.<sup>1</sup> Putting the question, Are low wages "natural" or are they due to usurpation by capitalists? he answers, The latter. What, then, is the natural wage? That is, what ought wages to be? Here, he says, the economists do not help us to an answer. They merely state a truism: wages are determined by demand and supply, and are what they are. This does not satisfy one who, like von Thünen, sees in wages the means of livelihood for men and women rather than a mere price set by competition upon the commodity, labor.<sup>2</sup> He says that Smith had done well for his time, but that, in view of the discontent and danger of class conflict which had since arisen, economists must go further.

Von Thünen, accordingly, seeks to get at the bottom of the problem by first simplifying it. He goes to the margin of cultivation, thus eliminating rent. He assumes a *tabula rasa*. He then reduces capital productivity to labor pro-

<sup>1</sup> See II Theil, 1 Abtheilung, 1 Abschnitt.

<sup>2</sup> Thünen states that these ideas came to him in 1826 after reading in Say and Ricardo, and were written then, but not published, because they seemed too radical at that time.



ductivity. In so doing, he implies that capital is stored-up labor; his procedure being to divide laborers into two classes, the capital-producing and the mere subsistence-producing; and to determine wages (and interest) for the first class, on the assumption that competition will give the same wage to the latter class.

It is to be noted in advance that von Thünen had the idea that successive units of labor and capital yield less than proportionate returns, and that consequently there are surpluses above the returns on the last units, in which surpluses labor should share. The evil of low wages lies in the fact that capital retains more than its share. It is necessary, then, to ask: what is the natural interest rate, and can the existing rate be encroached upon?

Now with this idea in mind, and reasoning under the above assumptions, von Thünen seeks in four ways to analyze the relation between wages and interest and derive a law for determining the natural or proper wage (and interest): by regarding (1) capital as produced by labor, or by considering labor as producing capital; (2) labor as replaced by capital (*i.e.* substitution); (3) marginal productivity of capital; (4) marginal productivity of labor.

From the first point of view he makes the interest on a given capital depend upon the amount of labor — or rather the amount of subsistence for labor — required for the production of that capital. The formula is: interest is to capital as the (additional) income secured by the laborer as a result of his producing the capital is to the wages of the laborer. According to this idea, "natural" wages (and interest) would vary with productivity. These conclusions must also apply to non-capital-producing laborers; otherwise they would take to producing capital. As von Thünen puts it, the excess of wages over subsistence must, at interest, equal the income secured by capital-producing laborers.<sup>1</sup> In a word, under von Thünen's assumptions, the

<sup>1</sup> *Der isolirte Staat*, 3d ed., pp. 150 f.

additional income received by capital-producing laborers from the productivity of their capital would be a determining factor in all wages.

As to the third and fourth points of view; von Thünen's reasoning is based upon two advanced concepts: (1) a universalized law of diminishing returns; (2) a marginal productivity analysis of distribution. Briefly put, his idea on the third point is that as successive units of capital are added to a given industry or undertaking, the return diminishes in quantity and net value; additional capital increases the productivity of a nation's labor at a lower rate than earlier portions. More definitely, successive units of capital added to a given amount of labor on marginal land result in a decreasing product per unit (101), and the return upon the whole supply of capital, when lent, is determined by the use of the last bit of capital applied.<sup>1</sup> Thus, as already suggested, a surplus value arises in the use of the earlier units. This surplus above the marginal unit "naturally" belongs to labor.

From the fourth point of view he considers wages as determined by the marginal productivity of labor. He illustrates by imagining additional labor put upon a given potato field, and presents a table indicating decreased returns. His conclusion is that the last laborer employed receives what he adds and that his wage determines the rate for all laborers of equal skill and capacity.<sup>2</sup> From this point of view there is also a surplus: "Even if the last-added laborers do not produce more than enough to cover their wages, yet the preceding laborers afford a very considerable surplus to the undertakers, which gives them the means of paying a higher wage."<sup>3</sup>

On all four bases von Thünen professes to reach the same conclusion, namely, that the natural wage is indicated by the formula  $\sqrt{AP}$ , in which A equals the value of the product of labor and capital, and P equals the subsistence of the laborer and family.

<sup>1</sup> *Ibid.*, pp. 99, 103.

<sup>2</sup> See *ibid.*, pp. 100, 178, 186.

<sup>3</sup> *Ibid.*, p. 187.

The general idea is clear. A surplus arises on the earlier units of an investment of successive increments of labor and capital. Subsistence must be considered as a minimum; but labor ought to have more than a bare subsistence, and ought to share in progress. How, then, shall this surplus be shared? Give labor a share which will vary as the square root of the joint product of the two factors. This would remove the fatal clash of interests between labor and capital, and as long as a laborer got such a wage he would never be in need, — a fact of “decisive importance” (208). Needless to say, the above idea of margin and surplus anticipates ideas commonly associated with more recent developments in theory.<sup>1</sup>

In brief criticism it must be remarked, however, that the foregoing idea of a surplus well illustrates a vicious tendency of the so-called “dosing method” of reasoning in economics. In reality no such distinction between the value product of one group of laborers and that of another, increased by the addition of more laborers, exists. There is no such separation between the two cases as von Thünen’s theory implies. One cannot logically assume that in the first case a group of men got certain wages, and then, when additional ones were employed and brought wages down, that the difference between the two wage rates would be left as a surplus in the hands of the employer. Rather the difference ceases to exist as soon as the new arrangement is effected, and the “surplus” is merely an historical thing. The laborers do not produce as much on the average as they did. Simply conditions as to the relative proportions of land, labor, and capital have been altered, and, other things being equal, the average laborer is less productive.

To his wages formula von Thünen attached an exaggerated significance, even expressing a wish that it should be

<sup>1</sup> Professor Clark himself says: “With Von Thünen’s work before us, no one else can claim as his own the application to labor and to capital of the principle of final valuation and the basing of valuation on productivity”; and goes on to indicate certain criticisms of von Thünen’s thought in regard to which alone recent marginal-productivity theory is an advance. (*Distribution of Wealth*, p. 324, note.)

engraved upon his tombstone, though his correspondence shows that in later years he felt the impossibility of applying it,<sup>1</sup> and in practice he was fain to use a sort of profit-sharing scheme. In fact, it has no exact validity. So varied is the part played by labor, relatively to capital, in different industries or in different stages of the same industry, that no such formula can express the share of the total value product attributable to it in general. Here, at least, this shrewd economist fell victim to his abstract method. His formula would do under certain limitations, as under an assumption of the dominance of economic motives, of free land, equal opportunity, no capitalist class and little capital, and equal laborers. But it is generally true only when it is deprived of a determinative significance and taken to express the rather obvious truth that the wage ought to lie somewhere between subsistence and product.

One cannot but be reminded of Ricardo's difficulties in dealing with different proportions of fixed and circulating capital in working out his attempt at a labor theory of value. In any such attempt the proportions of labor and capital must be known, which is but another way of stating that capital is more than stored-up labor, as such. There is another element of cost or time involved, which makes the application of the labor-pain or labor-subsistence value solvent impossible. In this Senior was wiser than von Thünen.

But one must not forget the great truths which accompany the error. The emphasis of the humanitarian and ethical aspects of the labor problem, while not primarily an economic matter, is important for the application of theory. Von Thünen did well, too, in calling attention to the productivity aspect and criticizing others for dealing only with subsistence and supply of labor. The breadth of his thought is illustrated by another criticism which he incidentally passes upon the economists. These, he says, have written as though land were the only productive factor to be economized. While it is true that the total supply of land is

<sup>1</sup> Schumacher, *Ein Forscherleben*, p. 239.

limited in a sense, yet there are places where it is abundant and labor is scarce, as in North America. Economic theory should be broad enough to accommodate all relations. As already implied, von Thünen is the father of an idea of diminishing returns that is broad enough to be applied to all the factors.

**Tariff; and Miscellaneous.**—Like Adam Smith, von Thünen was on the whole a strong believer in free trade as a general proposition. He believed that both the strong manufacturing nation and the weaker producer of raw materials were injured in material wealth by tariff restrictions. This theorem he deduced by assuming his isolated state to be divided into two, following with an application of his deductions to the actualities. Such would be the gist of his idea as drawn from the first volume.

Later, however, his thought appears to have undergone some modification, for in the second part of the second volume his conclusion is not so simple,<sup>1</sup> though not changed as to general tendency. It may be conjectured as a strong probability that an acquaintance with List's writings was the occasion for this development. Von Thünen contrasts national and cosmopolitan points of view: the one considers relative strength, the other absolute; the one seeks the strength of the nation, the other the material well-being of the people. Under existing conditions the former points of view may be a necessity. He inclines to hold that free trade cannot be preached as an absolute good. And, as he says: "So Adam Smith in defending free trade generally held the cosmopolitan standpoint; but there are places in his work which take a national standpoint, and consequently both opponents and followers can find support for their views."<sup>2</sup> Von Thünen's reasoning differed somewhat from List's in that he considered both agriculture and manufactures, though chiefly the former; while List's argument proceeded largely on the basis of manufactures.<sup>3</sup>

<sup>1</sup> See II, ii, 4, 4 (pp. 83 ff.).

<sup>2</sup> *Ibid.*, p. 85.

<sup>3</sup> This point is put somewhat too strongly by Büchler, *Von Thünen*.

The assumption that each individual knows his own interest and acts accordingly is specifically made; and, moreover, some evidence of a tendency to believe optimistically in an economic harmony appears, for he says: "As from the interaction of all, each striving for his own rightly understood advantage, the law according to which the community acts, arises, so on the other hand must the advantage of the individuals be comprised in the observance of these laws."

Moreover there is apparent a tendency to regard the laws of society as being the outcome of a divine plan, for "man is the tool in the hand of a higher power" unconsciously working out His great ends.

**Conclusion.** — The conclusion is, in brief, that J. H. von Thünen produced a masterly piece of deductive economic thought, based in part upon careful statistical investigation; and independently developed the law of rent in an admirably clear fashion. He was the first economist to treat clearly and systematically of the influence of distance from the market upon the economics of agriculture. His method of approaching the price-determination problem clearly suggests the Austrian school's procedure, and the marginal productivity idea is clearly put, — though it is properly connected with cost.<sup>1</sup>

<sup>1</sup> 1st ed., p. 253.

### III. OPPONENTS AND LEADING CRITICS

A MAJORITY of the preceding economists who have been classed as Smith's followers took occasion now and then to criticize their master as well as each other. On certain points Malthus criticizes Ricardo, and Ricardo assails the logic of Malthus, while both find imperfections in the *Wealth of Nations*. Such men, too, as Senior and von Thünen were independent in a considerable degree, and did not fail to point out weak spots in the Classical economics. Yet they all wrote within the framework of its doctrines as laid down by Smith and Ricardo, on the whole accepting the typical theories of production, value and distribution, and free trade. Whether tending toward pessimism or optimism, believing in this particular modification or that, the foregoing economists have been, for the most part, at bottom in accord with the doctrines of the English Classical School.

It is no simple matter to classify those who, on the other hand, opposed the Classical economics or criticized it in so fundamental a manner as to make it illogical to range them among the followers. By no means all of the critics are discussed; but only those whose criticisms seem the most fundamental and whose influence has also been considerable. They have been divided into three groups: (1) those whose thought was based upon a philosophy which was opposed to the underlying system of the Classicists, (2) those who are most notable for their criticisms of the method of reasoning pursued or the scope given the science, and (3) those whose chief criticism concerns the logic of the theories, regardless of philosophy or method. In other words, there were

some who directed their assault upon its fundamental assumptions, opposing its underlying philosophy and its ethical basis. Others centered their attention upon the scope adopted or method pursued by the Classicists, criticizing their logical *processes*, while others cared relatively little about philosophy or method in themselves, but attacked the conclusions reached as being illogical.

Of course the heads of such a classification cannot be all-inclusive and exclusive, and, needless to say, some critics opposed Smith and his followers on all three grounds. Just as philosophy and method are related, so the thinkers who criticize the logical method of the older economists are apt also to be at variance with them in underlying philosophy, and many criticisms of the logic of the Classical theories were made by economists placed under one of the first two heads. Nevertheless it seems desirable to distinguish these groups, emphasizing the main characteristics. It is generally possible to say that this or that opponent or critic directed his attention chiefly to one or the other of these three phases of thought. Generally one of the above points of attack is hit the hardest. It will lead to a clearer understanding of the weaknesses of the Classical economics and to a better appreciation of the several groups of opponents.



## 1. THE PHILOSOPHICAL AND ETHICAL SYSTEM

ONE of the earliest and most frequent grounds of criticism has been the general underlying philosophy of the economics of Smith and his followers. This philosophy tended toward materialism, individualism, and utilitarianism. It tended to leave ethical factors out of consideration, and to shun ethical responsibility; to make self-interest its sole basis and to recognize little or no good in government interference with industry; to assume that humanity consists of "economic men" who determine courses of action by balancing pleasures against pains to ascertain a balance of utility. It had the idea of an unlimited possibility of expansion in wants and of an indefinite sum of satisfactions. Furthermore there was a tendency to regard men as equal by nature, and consequently the idea of cosmopolitanism was easy. Men being naturally pretty much equal, actual differences must be due to environment: this was a part of the materialistic tendency.

Of course all the followers of Adam Smith did not show all these tendencies. They varied in the number of the tendencies exhibited and the degree in which they were emphasized. Taken together, however, these tendencies form a closely connected group; and the foregoing paragraphs, together with the sections on philosophy and method in the preceding chapters, will give a sufficiently clear idea of that which the following thinkers attacked.

### a. INDIVIDUALISTIC CRITICS

THE relation of the individual to the state has from the beginning been a chief point of dispute in economic thought. The social philosophy of the Physiocrats and Adam Smith, on the whole, favored individualism and *laissez faire*. It was based upon the assumption that the economic interests of individuals and nations are materially the same. One of the earliest attacks upon their system centered upon this idea.

It is interesting, however, to observe that several different points of view were taken by those who opposed that philosophy, some rejecting it in part, others in its entirety. Thus the least radical group accepted the individualism, but sought to make it more humanitarian by limiting *laissez faire*, being as a rule less hopeful, or careless, than the Classicists proper. There was, then, an individualistic criticism. But others rejected individualism, and while they did not go so far as to advocate a socialization of property, they emphasized the nation as an economic unit, favoring more or less interference with industry for national ends. These were nationalists in their criticism. They opposed that part of the individualistic tendency which leads to cosmopolitanism, regarding men as world citizens. Finally, the Socialists must be noted among the opponents and critics, along with the individualists and nationalists. They have been the most radical of all, though the prevalence of misinterpretation and inconsistency sometimes makes Socialism seem quite in harmony with certain points in the philosophy and doctrine of the economists. Socialism, however, is the antithesis of individualism, and it must logically ever tend toward idealism in philosophy, while thoroughgoing Socialists have always opposed the most fundamental postulates of economics.

## CHAPTER XVIII

### LAUDERDALE AND RAE AS INDIVIDUALISTIC CRITICS: SOCIAL AND INDIVIDUAL WEALTH

**Lauderdale.** — Early in the nineteenth century two shrewd and eccentric Scotchmen wrote books in which they opposed Smith's economic system in a fundamental way. While accepting his individualistic point of view, they took the *Wealth of Nations* to task on the ground that it confused public and private wealth. The first of these was Lord Lauderdale (1759–1830), who in 1804 published his *Inquiry into the Nature and Origin of Public Wealth and into the Nature and Causes of its Increase*. French and German translations of this work appeared in 1808, and an enlarged English edition in 1819. Its main points concern value, wealth, and capital, in treating all of which the author showed much originality and had a very considerable effect. More will be said of his ideas on value and capital in other chapters.

At the very outset, he emphasizes the importance of defining terms and analyzing their meaning; and he particularly stresses the distinction between "wealth" and "riches." The latter term he uses to designate private wealth. The former consists of "all that man desires, as useful or delightful to him" (56).

Then, in his chapter on public wealth and private riches (pp. 43 ff.), Lauderdale begins by stating that all previous writers had made the mistake of confusing individual and national wealth, and had accordingly made national wealth equal the sum of individual riches. With such an idea these writers had naturally reasoned that the proper way to in-

crease national wealth is by means of "parsimony" (saving); for that is the way in which individuals become rich.

But here Lauderdale points to the fact that the riches of the individual depend in part upon the scarcity of the things saved, or, as we would say, his wealth is the exchange value of his property. And he asks, does not common sense revolt at the idea of increasing wealth by making things scarce? "For example," he says, "let us suppose a country possessing abundance of the necessities and conveniences of life, and universally accommodated with the purest streams of water: what opinion would be entertained of the understanding of a man, who, as the means of increasing the wealth of such a country, should propose to create a scarcity of water, the abundance of which was deservedly considered as one of the greatest blessings incident to the community? It is certain, however, that such a projection would, by this means, succeed in increasing the mass of individual riches; for to the water, which would still retain the quality of being useful and desirable, he would add the circumstance of existing in scarcity, . . . and thus the individual riches of the country would be increased in a sum equal to the value of the fee-simple of all the wells" (44-45). Or, in the case of food, to increase the supply would act *vice versa*. Or, again, would the declaration of a war which decreased the capital value of the national debt, rents, and other incomes, and so reduced private riches, decrease the lands, or waters, or any of the wealth of the nation? Surely not.

He concludes that it is very important to observe that in proportion as the riches of individuals are increased by an augmentation of the value of any commodity, the wealth of the nation is generally diminished (50). This strongly suggests opposition between public and private interests. Indeed, he remarks: ". . . nothing but the impossibility of general combination protects the public wealth against the rapacity of private avarice" (54).

In following chapters, Lauderdale treats of the source of wealth and the means of augmenting it, criticizing Smith

vigorously on such points as non-productive labor, division of labor, and function of capital. He concludes that wealth can be increased only by the means which produced it, namely, production by land, labor, and capital; parsimony,<sup>1</sup> "baneful passion of accumulation," cannot avail.

This doctrine finds expression in the extreme conclusion that the best way to increase public wealth is to make great expenditures, while the quickest way to diminish it is to accumulate a sinking fund.

Lauderdale's emphasis of consumption and demand, and his shrewd observations on the effects of varying distribution of wealth, are remarkable. He was far in advance of his contemporaries in these matters.

In his discussion of accumulation and consumption, he may be dubbed the father of the overproduction idea.<sup>2</sup>

The breadth of his reading is also notable, as he cites Xenophon, Locke, Petty, Vauban, Gregory King, Harris, Hume, "the works of all the Economists" (Physiocrats), William Pulteney, Hooke, Smith, Malthus, and others.

To Americans, at least, it is of interest to note that an early economist of the United States, Daniel Raymond (1820), refers to Lauderdale and virtually follows him in contrasting social with individual wealth,<sup>3</sup> and the French economist, Ganilh, who was influenced by Lauderdale, in turn exerted an influence upon Raymond and other Americans. Indeed, the French translation had considerable effect in the land of the Physiocrats. In Germany one of the chief economists influenced by him was Hermann. One of the many writers of the early nineteenth century who read and were influenced by Lauderdale was John Rae, concerning whom a word must be said next.

**John Rae.**—The American writer John Rae furnishes another instance of early criticism of Smith's economics which should not be forgotten. Rae was a Scotch immigrant, first to Canada and later to the United States. His book

<sup>1</sup> Considered as a national policy, not world-wide. See p. 266.

<sup>2</sup> See below, p. 360.

<sup>3</sup> Cf. above, pp. 282 f.

was published in 1834 at Boston, Massachusetts, and was entitled, *Statement of Some New Principles on the Subject of Political Economy, Exposing the Fallacies of the System of Free Trade, and of Some Other Doctrines maintained in the Wealth of Nations*.<sup>1</sup> While the title perhaps unduly emphasizes the merely critical part of the work, it sufficiently suggests the reason for presenting a brief treatment of its author at this point.

The first book of the *New Principles* is headed, "Individual and National Interests are not Identical." Rae adopts Lauderdale's general idea of a difference between public and individual interests, and develops a theory of government interference in harmony with it. His idea differs from Lauderdale's, however, in that he does not consider a difference in the wealth itself, but one in the "*causes* giving rise to individual and national wealth." His treatment is diffuse and lacks the verve and acumen of Lauderdale's thought; but it is his merit that he clearly shows how fundamental to Smith's thought is the notion of an identity between national and individual wealth, and that he connects his analysis with public policy.

Rae states Smith's case thus: "The axiom which he brings forward, that the capital of a society is the same with that of all the individuals who compose it, being granted, it follows that to increase the capitals of all the individuals in a society is to increase the general capital of the society. It seems, therefore, also to follow that as every man is best judge of his own business and of the modes in which his own capital may be augmented, so to prevent him from adopting these modes is to obstruct him in his efforts to increase his own capital, and . . . to check the increase of . . . general capital; and hence, that, as all laws for the regulation of commerce are in fact means by which the legislator prevents individuals conducting their business as they themselves

<sup>1</sup> Rae's work has been rearranged and edited by Dr. C. W. Mixter, and reprinted under the title, *The Sociological Theory of Capital*. (New York, 1905.) This reprint contains a biographical sketch and notes by the editor.

would deem best, they must operate prejudicially on the increase of individual and so of general wealth."<sup>1</sup> Furthermore, Rae points out that it is assumed that as the capital of a single individual grows through saving and accumulation, so the national capital is increased in the same way.

The whole scheme Rae rejects. In the first place, even assuming that individual and social interests are the same, it is not true that saving from revenue is the sole means that an individual uses to increase capital. He must first gain his revenue, and thus the amount he can save depends partly on his talents and capacities. Moreover, the fact that an individual by gambling and tricky bargaining may gain wealth shows that self-interest does not always lead to increased national wealth.<sup>2</sup> But it is not true that social and individual interests are identical, nor that the causes giving rise to wealth are the same in the two cases. For, while it is generally true that an individual can find employment and so obtain an income from which he can save, in the case of a nation the "materials on which the national industry may be employed are to be provided, and often are or may be wanting."<sup>3</sup> Individuals seem generally to grow rich by grasping a portion of existing wealth; nations, by the production of new wealth. "The two processes differ in this, that the one is *acquisition*, the other *creation*."<sup>4</sup>

But creation of wealth depends upon invention, and national wealth can be increased only through the aid of the inventive faculty.<sup>5</sup> Thus the power of invention plays a leading part in Rae's thought.

In this connection it may be remarked that Rae also criticizes Smith's treatment of division of labor, holding that it springs from invention rather than the reverse, and hence is effect rather than cause. And, of course, there is an element of truth in this, for in reality the two are interrelated, each being now cause and now effect.

<sup>1</sup> *The Sociological Theory of Capital*, Mixer ed., p. 380.

<sup>2</sup> *Ibid.*, p. 345.

<sup>3</sup> *Ibid.*, p. 381.

<sup>4</sup> *Ibid.*, p. 383.

<sup>5</sup> *Ibid.*, p. 386.

In harmony with the foregoing ideas, Rae opposed a strong tendency of the Classical School in holding that there is no presumption against governmental interference. From what has already been written it is evident that he assails the presumption in favor of *laissez faire*. But elsewhere he approaches the question in a different way. He centers his criticism at this point largely on the distinction between natural and artificial. He says that society is natural, proceeding from the operation of natural forces, both subjective and objective. But the statesman cannot be separated from society nor the actions generated by him be called unnatural. Therefore the interference of the legislator is natural, and, Rae thinks, often beneficial. He may promote intelligence and invention, and prevent dissipation of the community's funds.

Though criticism of method might more logically be reserved for later discussion, Rae's is so unique and so entwined with his criticism of the philosophy that it can hardly be passed over without a word here. Smith's method, Rae says, is not truly scientific, that is, inductive. There are two sorts of philosophy, he explains: one is explanatory and systematic, the other is inductive or scientific. The former seeks merely to explain phenomena, as does Smith, fitting them into some machinery of "natural" assumptions. Furthermore it generalizes from familiar and ill-defined notions, and the confusion in Smith's use of the terms, value, wealth, stock, capital, self-interest, desire of bettering one's condition, etc., is illustrative. The doubts and difficulties into which political economy has fallen since Smith's day are evidence of the weakness of his method. "If we, therefore, view his work as an attempt to establish a *science* of wealth, on the principle of the experimental or inductive philosophy, it is exposed to the censure of transgressing every rule of that philosophy."

Just what influence Rae exerted is not clear.<sup>1</sup> John Stuart

<sup>1</sup> See Mixter's biographical sketch in *The Sociological Theory of Capital*, above cited, and the references it contains. For Rae's anticipation of important points in the theory of capital and interest, see *ibid.*



Mill was acquainted with his book,<sup>1</sup> and it may be conjectured that some of his modifications of the Classical system were the result. An English economist, Hearn, who, as will be seen, had some influence on Jevons, also knew Rae's work. In 1856 an Italian translation was made.

**Summary.** — Both of the writers discussed in this chapter emphasized the distinction between social or national wealth and individual wealth, pointing to a lack of identity in public and private interests, and suggesting the advantage of considerable government interference. Rae, however, chiefly develops the idea of the different causes which increase the social and individual wealth.

Both criticize Smith's emphasis of saving or parsimony, Lauderdale hitting it the harder of the two. Lauderdale emphasizes labor as the means of increasing wealth; Rae, the skill, dexterity, and direction of labor in *creating* wealth. The latter makes invention the main factor.

Both have the idea of a contrast between utility and exchange value underlying their thought, though this is far more marked in Lauderdale's case. It is interesting to note a similarity with the Physiocrats at this point. Lauderdale, indeed, says that the Physiocrats were nearer the truth in their ideas on "wealth" production than Smith; and Rae, in arguing that national wealth is increased only by *creating* new wealth, reminds one strongly of the *produit net*.

It is easy enough, when one takes this tack, — and especially if ethical notions are mixed up with one's idea of utility, — to conceive of general overproduction. For then production consists in making goods which men "need" (not want) and in such quantities as are necessary, or "beneficial" to them. Accordingly, as already suggested, Lauderdale laid a basis for the ideas on overproduction for which two other economists with Physiocratic leanings, Malthus and Sismondi, are well known.

<sup>1</sup> Mill quotes Rae with approval in dealing with division of labor and motives to saving under the head of production. He also mentions Rae in connection with taxation.

## CHAPTER XIX

### SISMONDI: THE EMPHASIS OF INCOME AND CONSUMPTION

AMONG the earliest to revolt from the philosophy and ethics of the Classical economists was the French writer, Sismondi. This thinker well illustrates the difficulty of making the threefold classification of opponents very rigid; for his criticism on the score of method is all but as important as his general revolt against the spirit of Smith's system, while he attempted several criticisms of particular theories. Yet, after all, the notable thing about Sismondi is his ethical spirit and his rebellion against the underlying system. He desired considerable state regulation for social reform, but inasmuch as he did not advocate Socialism, he is to be classed as a limited individualist.

**Life and Works.**<sup>1</sup>—Jean Charles Leonard Simonde de Sismondi was born in Geneva, Switzerland, in 1773, only three years before the publication of the *Wealth of Nations*. His father, a Protestant clergyman whose ancestors had fled from France upon the revocation of the Edict of Nantes, had destined young Sismondi for business pursuits; but the boy was given a classical education, and this, together with experience as a minor government official, and travel through Germany and Italy, developed his taste and ability for historical and economic studies. He lived until 1842, and was the author of numerous works and articles in his chosen field.

Thus Sismondi's life was cast among stirring events and great thinkers. The French Revolution, the Napoleonic

<sup>1</sup> See *Political Economy and the Philosophy of Government, a series of Essays Selected from the works of M. de Sismondi*, by M. Mignet. (London, 1847.)

wars, the consummation of the Industrial Revolution, were witnessed by him and their attendant evils noted. Malthus, Say, List, and Ricardo were among his contemporaries.

His first economic writing was the *Tableau de l'Agriculture Toscane* (1801), followed in 1803 by his more important work, *De la Richesse Commerciale ou Principes de l'Économie Politique, appliqués à la législation du Commerce*. The *Richesse Commerciale* treats of capital, price, and monopoly, closely following Adam Smith's ideas. If Sismondi had never written again upon political economy, he would have gone down in history with a bare word to the effect that he was among the minor earlier followers of Smith.

Then for a space of sixteen years important economic writing ceased. But history engaged his attention, and a close study of industrial phenomena around him. He observed the suffering and hardship which accompanied the close of the Napoleonic wars, and the extent and severity of the crises of 1815, 1818-1819, and 1825. He studied England, the land of industrial progress and political economy, and there he saw the rich growing richer while the poor grew poorer. He saw relative overproduction and unemployment; and he remarked, as he states in the preface of his next book, that the laborers, having become mere proletarians, cast off all restraint upon the size of their families. He saw danger, too, in the extended use of paper money and bank credit.

The book last referred to was his chief economic work, the *Nouveaux Principes d'Économie Politique ou de la Richesse dans ses rapports avec la Population* (New Principles of Political Economy, or of Wealth in its relation with Population), which was published in 1819.<sup>1</sup> A second edition, considerably enlarged, appeared in 1827. In this new work Sismondi presents a remarkable change of front. While still adhering to some of the main doctrines of Adam

<sup>1</sup> It resulted from and was based upon an article which he undertook to prepare for an encyclopedia.

Smith and the Classical School, he draws radically different conclusions, and places the emphasis upon new matters. For Smith and his work he professes admiration and would even acknowledge his leadership; but he would complete and make new applications of his master's doctrines, and he sharply criticizes Say, Malthus, Ricardo, and M'Culloch.<sup>1</sup> It is interesting to remember that Sismondi was familiar with Italian thought, and it is probable that he was influenced by the Italian economist, Ortes,<sup>2</sup> who held similar views with regard to population and the distribution of wealth.

In his last important economic work, *Études sur l'Économie Politique* (1837-1838) his new ideas are reiterated: the economists, he states, had been swept off their feet by the spirit of industrial progress. He, however, had seen the suffering of society in an age of "progress" too clearly to go with them. Through observation and historical study he had been led to abandon their conclusions.<sup>3</sup>

**His Economic Thought.**—1. *Scope of Economics and Criteria of Progress.*—In his outlook and purpose Sismondi differs from the Classical School. He was a reformer. Ethical considerations played a large part in his thought; and to him economics was largely an art. He aimed to put economics upon a new basis: the economists had taught how to increase national wealth; he would teach how to increase national happiness, and to this end would point out the advantages of government intervention to regulate the progress of wealth.

Accordingly his views concerning the scope of economics and the criteria of economic progress were at variance with the dominant theories. To Sismondi enjoyment or happiness is the sole end of accumulation, and in it consists the true wealth of the nation.<sup>4</sup> And he criticizes the current emphasis on production, calling the classical economics *chrématistique* (money-making science).<sup>5</sup> Consumption,

<sup>1</sup> *Nouv. Prin.*, I, Preface, and pp. 50-51. References are to the second edition.

<sup>2</sup> *Economia Nazionale* (1774).

<sup>3</sup> *Études*, II, 211.

<sup>4</sup> *Nouv. Prin.*, I, 51.

<sup>5</sup> Cf. Aristotle's Thought, above, p. 60.

then, plays a large part in his system; the history of all wealth is the same, — it is destined to yield enjoyments through its destruction or consumption.<sup>1</sup>

As limiting consumption, income, he says, rather than capital, is the important thing. But, as in the "public fortune" the capital of one is the income of another, the economists have been embarrassed in deciding what is income and what capital, and have therefore left revenue out of consideration.<sup>2</sup>

Neither material wealth nor population is an absolute sign of prosperity; that depends on the relation between the two. "Population is an advantage only when each man is sure of finding an honest living by labor."<sup>3</sup>

"I have endeavored," writes Sismondi, "to establish . . . that to allow wealth to contribute to the well-being of all, as being the sign of all the material enjoyments of man, it is necessary that its increase should conform to the increase of population and that its distribution take place among that population in a proportion that can be disturbed only with extreme danger. I propose to show that it is necessary for the well-being of all that income increase with capital, that population do not exceed a living income, and that production be proportioned equally to capital which produced it and population which consumed it."<sup>4</sup>

2. *His Scheme of Distribution.* — According to these notions, Sismondi worked out a scheme of distribution which cannot but remind one of Quesnay's in its pretentiousness. As nearly as it can be reduced to exact statement, — for his terminology is not free from inconsistency, — that scheme is as follows.<sup>5</sup> We begin with the *national revenue*, through which the population is to acquire its consumables. In this national revenue two parts may be distinguished: (1) profits on capital and land, which, though distinct, may be classed together here; and (2) labor power. Of these parts the former, profits, is of the past. It is the result of the labor of the previous year, in the hands of consumers. Labor

<sup>1</sup> *Nouv. Prin.*, pp. 38 ff.

<sup>2</sup> *Ibid.*, p. 9, Preface.

<sup>3</sup> *Ibid.*, I, p. 9.

<sup>4</sup> *Ibid.*, Preface, x-xi.

<sup>5</sup> *Ibid.*, pp. 104 ff.

power, on the other hand, is future, as it were, only becoming wealth through opportunity and exchange. Labor acquires a new right each year by new labor; capital holds a permanent right based upon control of past labor. On the whole, there is an opposition of interests between the classes receiving the two shares; yet a certain relation exists between these shares in that they have the same origin.

This national revenue is destined to be exchanged for the *national production* (of the ensuing year), to which it should be equal. The annual production likewise consists of profits and labor power.

The annual national production is, then, consumed annually, labor giving labor power in exchange (for its share), and capital giving of its revenue (or interest). The labor power, we are told, becomes converted into capital, and is then reproduced as is other capital. By this annual consumption, involving the exchange of one year's *revenue* for the *production* of the next, each maintains his consumption or replaces his capital.

If true economy is used, therefore, and things go prosperously, the annual consumption is exactly limited by the national revenue, and all that is produced is consumed.<sup>1</sup> When this is not the case it is obvious that the desired equilibrium is disturbed and that either overproduction or underproduction must result. This equilibrium involves an exchange of all that is called capital for labor, the former being the revenue of the labor class; and if the "rich" consume their capital, the revenue of the poor for the following year is encroached upon, *i.e.* not spending, but saving, gives more employment and keeps wages up. Sismondi hardly considers the alternative of underproduction, for he is bent upon overthrowing the doctrines of the Classical political economy concerning productivity.

Though arguing thus concerning an equilibrium of production and consumption, Sismondi did not advocate an absolute standstill or circle; rather he thought of a spiral

<sup>1</sup> *Nouv. Prin.*, I, p. 115.

brought about by a very gradual increase in production. Even this would cause small losses by disturbing the proper equilibrium, but they might be offset by future benefits.<sup>1</sup> A series of small losses coupled with increasing capital and public fortune, in this consists national economy.

In this general connection Sismondi takes occasion to criticize "the economists." They had, he thought, confused past revenue with future revenue and omitted to treat of consumption.<sup>2</sup> They had argued for an increase in labor as being possible and desirable as a first step. That would mean an increase in wealth, in revenue, and in consumption, respectively, consumption thus being placed last. But, Sismondi urges, it is more correct to say that an increase in the demand for labor must come first: that is, increased revenue and consumption must precede the increase in labor and production. Accordingly more wages would have to be paid, whereas wages are fixed in advance, being limited by pre-existing revenue.

3. *Overproduction and Machinery.*—Sismondi's whole scheme of distribution is underlain by an "unorthodox" belief as to the possibility of overproduction which militated against the success of his work. He argues that if the annual production were in excess of the annual revenue, which seemed to him quite possible, overproduction would be the result. Capital would then suffer loss, labor would go unemployed, and thus the consumers' gains through lower prices would be but temporary.<sup>3</sup>

In reality there seem to have been two different notions of overproduction in Sismondi's mind: one concerned use values or total utility; the other, exchange values. It is not unlikely that he was confused in dealing with the two. His reasoning upon the former notion, which to him is the fundamental one, Sismondi appears to have based upon the need for repose.<sup>4</sup> Repose or rest is a "natural" taste of man.

<sup>1</sup> *Nouv. Prin.*, I, p. 121.

<sup>2</sup> *Ibid.*, Liv. II, Chap. VI.

<sup>3</sup> *Ibid.*, I, pp. 118-119.

<sup>4</sup> See *Ibid.*, Liv. II, Chap. III. Repose is partly defined as including change of activity from wealth creation to enjoyment and to intellectual and artistic development.

It is the reward of labor. Man accumulates only to consume, which implies repose. But under the dominant system laborers must work on, making a superabundance of products, many of which are luxuries. Their efforts are thus separated from their reward. That a line drawn between necessities and luxuries is also an essential part of Sismondi's reasoning here, is clear; for it is only for luxuries that man's wants are unlimited, and it is in multiplying goods beyond *needs* that overproduction lies. In a word, if men would satisfy their needs only, including repose, the unremitting labor of the day would not be required. If the truth of his semi-ethical idea of necessities and luxuries be granted, and the statement that laborers are overworked, there is nothing inherently fallacious in the reasoning so far.

It is on the point of overproduction of exchange values that Sismondi falls into positive error. Here his whole idea is that an increased demand must precede increased production, and his criticism of the economists has already been referred to. He fails to see that production and revenue are interdependent in the long run; that production is the source of revenue; that it indirectly creates and directly limits demand. He fails to see the significance of the fact that exchange values are relative and that as a general proposition their total amount cannot be affected by changes in the production of commodities. Hence he is led to uphold the possibility of a universal glut or general overproduction. Indeed, he states that at the time he wrote such a condition prevailed and had been in existence several years.<sup>1</sup>

While he calls attention to important truths, Sismondi's oversights and fallacies on this point are many. He generalizes too hastily from overproduction in particular industries. He illogically breaks into the round of production and consumption, and assumes revenue and demand almost

<sup>1</sup> See the article on "Balance des consommations avec les productions" appended to Tome II of the *Nouv. Prin.*, pp. 379 ff. Here is found an interesting criticism of an article by M' Culloch which admirably illustrates Sismondi's method.



as if they were something absolute, this being accentuated by his constant separation of the operations of one year from those of another, thus artificially chopping industrial life into segments. He ignores the decrease in costs which frequently attends increased production,<sup>1</sup> in this assuming a loss to capital and decreased employment, whereas decreased expenses of production would permit equal net earnings and increased employment. He, in his pessimism, does not consider facts as to increased consumption nor as to its greater variety. And, finally, as a criticism of the Ricardian school, his arguments are weakened by not making due allowance for their assumptions<sup>2</sup> as to length of time, mobility, and economic motive.

But his truths are not to be forgotten. He justly criticized the economists for reasoning so abstractly as to overlook the delay and friction often involved in bringing supply and demand into equilibrium. To this element of friction Sismondi constantly points. And not only is there the immediate lack of equilibrium; it is increased and its evils heightened by the fact that laborers frequently must remain at work though wages are lowered and hours increased.<sup>3</sup> The force of habit and the technical difficulties of transferring fixed capital are brought into clear relief.

Sismondi attacked the prevailing idea that machinery is an unmixed good. Here again, though he goes too far, his criticism has its value. His real point is that the introduction of machinery is an unmixed benefit only when preceded by an increase in revenue and demand which would allow the employment elsewhere of the labor which is displaced; otherwise there is suffering through lower wages and unemployment. All of which, for a given time, is frequently too true. Sismondi, however, would have restricted the adoption of machinery; while the economists, when they did not treat the question in such an abstract and general manner

<sup>1</sup> E.g. in discussion in *Novv. Prin.*, I, pp. 118-119.

<sup>2</sup> While they, of course, are open to criticism for not keeping their assumptions duly to the front and limiting their conclusions duly.

<sup>3</sup> *Novv. Prin.*, I, 333; and II, 379 ff.

as to sail above it, would have resorted to some system of relief pending new adjustments.

4. *Population.* — As already indicated, Sismondi deemed the end of political economy to be the discovery of that proportion between population and wealth which would assure the highest well-being. He gives much attention, therefore, to population.<sup>1</sup> His thesis on this subject is that while sympathy or the affections urge to marriage, egoism or calculation deter, and through the interplay of these forces population would naturally be regulated according to revenue.<sup>2</sup> But the evil situation arises in which the births of a nation exceed its revenues, and with overproduction, unequal property, and exploitation by the rich, revenue is encroached upon and wages are reduced. One of the points that Sismondi particularly mentions in his preface is the gloomy idea that the natural limits to population are always respected by those who have, while they are exceeded by those who have not.

Sismondi believes Malthus to be quite mistaken in his ideas on the natural limits of population. Population is not limited by the subsistence which land can produce, but is checked before such a limit can be reached. In opposing the ideas of a geometric and an arithmetic progression, Malthus was contrasting a mere potentiality with an actuality. Nay, rather with less than the actuality, for the increase of plant and animal life is more rapid than that of man. And history is appealed to for the purpose of showing that nomadic peoples have restrained population while their land would have supported a much more numerous people.<sup>3</sup>

5. *Reforms Advocated.* — Sismondi recognizes a conflict between public and private interests, and so logically calls upon the state to interfere: first to adjust production to revenue or demand (population), and secondly to apply cer-

<sup>1</sup> *Now. Prin.*, II, Liv. 7.

<sup>2</sup> See *ibid.*, II, pp. 253-255.

<sup>3</sup> Of course this fact is not necessarily in conflict with Malthus' theory, even as it is stated by Sismondi, for it may be subsistence which holds that population in check, whether gained by grazing or agriculture. In any case, the moral restraint idea is overlooked. For Malthus' reply, see his *Pol. Econ.*, 2d ed., p. 366, note.

tain particular remedies directly. Thus he urges the restriction of inventions, and advocates steps toward giving some property to labor. In agriculture small proprietors are favored; in manufactures, more small-scale industry and increased responsibility on the part of the employer.<sup>1</sup> Such responsibility as for sickness, accident, old age, would have given the laborer rights akin to those of property. In addition to all this, there are many vague appeals to statesmen to try to stay the struggle for increased industrial production. Under the head of more direct and less general reforms would fall his advocacy of regulation of hours, and of child labor; and of legislation giving laborers the right to combine.<sup>2</sup> In these matters Sismondi's importance as an early thinker in the field of social reform will be recognized.

6. *Exploitation of Labor, and Socialism.*—Though he does not draw Socialistic conclusions, Sismondi's argument often runs like that of Marx himself, and his thought concerning the exploitation of labor undoubtedly influenced Socialistic criticism. Generally, though not with entire consistency, he states that labor is the source of wealth. The "rich" can only obtain the products of others' labor through exchange. If they gave of their capital, they would become impoverished. But this is not necessary, for in the existing social order they make their property produce through the labor of others. In so many words he says that capitalists exploit laborers, gaining not because they produce a surplus above costs, but because they pay less than cost.<sup>3</sup> At one point the word "spoliation" is used.<sup>4</sup> Luxury is possible only where it is maintained with the labor of others; unremitting toil, only where it secures a bare subsistence,—this is a corollary of his ideas on overproduction.

Competition is criticized as leading to overwork and the employment of women. Government intervention is advo-

<sup>1</sup> *E.g. Nouv. Prin.*, II, 661.

<sup>2</sup> *Ibid.*, I, 92.

<sup>3</sup> *E.g. ibid.*, II, p. 451.

<sup>4</sup> *Études*, I, 274-275.

cated. Yet Sismondi stops short of Socialism, and criticizes Owen and others.

**Method.**—A marked characteristic of Sismondi was his concrete and historical method. Smith and Malthus he praises for their study of history and facts; while he constantly criticizes Ricardo for his abstraction and hasty generalization, and takes Say and M'Culloch to task on the same ground. Indeed, Sismondi was as much an historian as an economist. He was fully aware of the necessity for taking time and place and history into consideration. His best work lies in his concrete study of economic phenomena, and when he takes to abstract analysis he not infrequently falls into inconsistencies that confuse the reader.

No evidence has been found that the German historical school acknowledges a debt to Sismondi, yet it is probable that he was well known to the leaders of that school,—Roscher gives him favorable comment in his *History of Political Economy* in Germany,—and some small degree of influence seems not unlikely.

**Influence.**—Aside from this, Sismondi's influence was chiefly felt by the Socialists. Indeed, he has sometimes been wrongly classed as one. Though his writing was thus effective along a line which he would not himself have followed, he was almost universally rejected by economists. This was no doubt due to the extremely reactionary character of his thought. He called for government intervention in an age of *laissez faire*. He was a pessimist in a land where optimism reigned. He opposed the very spirit of the dominant economics in his criticism of *chrématistique*, competition, etc. And his notions concerning overproduction and machinery were not only largely erroneous, but were peculiarly offensive to the "orthodox" English Classicist.

J. S. Mill read Sismondi, and his more humanitarian spirit and advocacy of government intervention, even passing over to Socialistic views in his later years, must have made him a sympathetic reader. But to what extent he drew from Sismondi cannot be stated. Fix, Droz (*Économie Politique*,

1829), Villeneuve-Bargemont (*Économie Politique Chrétienne*, 1834), and Minghetti (*Della Economia pubblica*, 1859), might be classed as followers; and Buret appears to have been a sole disciple.<sup>1</sup>

<sup>1</sup> *La Misère des Classes Laborieuses en France et en Angleterre*, 1841. See Gide-Rist, *Hist. des Doctrines Économiques*, p. 228.

## b. NATIONALISTIC CRITICS

### CHAPTER XX

#### MÜLLER, LIST, AND CAREY: THE EARLY NATIONALISTS

THE Nationalists, the criticism of whose thought comes next, comprise a group of politico-economic writers of the early years of the nineteenth century, who attacked the cosmopolitan, free-trade doctrines of the Classicists. None of them were English. It is natural that this serious outbreak against the authority of Adam Smith should have taken place outside of Great Britain. Written for his own country and based upon the national life of his time, it was to be expected that the *Wealth of Nations* would answer the needs of England longer than those of other countries. It is natural, moreover, that what was perhaps the most thorough-going revolt against its teachings this side of Socialism should have occurred in a land whose development and manner of production differed essentially from those of Smith's native country. Germany, accordingly, has been one among the great civilized nations to lead the rebellion against English political economy. It was felt that it did not meet her requirements, and from the earliest years of the nineteenth century her economists took a more nationalistic stand. Sartorius (1806), Jakob (1809), Rau (1826-1832), and Hermann (1832) may be mentioned as to a considerable extent recognizing national bounds in theory, and making some place for tariffs. Excepting Hermann, however, these writers were essentially followers of Adam Smith, and nationalism was not the heart of their thought.

**Adam Müller.** — The first to express this feeling of nationalistic revolt so as to attract considerable attention were the political economists called, in Germany, Romanticists, of

whom the leading representative was Adam Heinrich Müller, and the two other most prominent adherents, Friedrich Gentz and Karl Ludwig von Haller.<sup>1</sup> Gentz translated Burke's *Reflections* on the French Revolution, which work doubtless had its effect upon Müller. Adam Müller was born June 3, 1779, in Berlin. In 1799 he went to the University of Göttingen, where he studied law. Upon his return to Berlin, he received a government appointment. Later he held various positions in Austria in what we would call the treasury department. His death occurred in 1829. While in Vienna, in 1805, he became a Roman Catholic, on which account he has been called a notorious apostate. Soon after this he went to Dresden and delivered lectures, which were published in that place in 1806 with the title, *Vorlesungen über die Deutsche Wissenschaft und Literatur* (Lectures on German Science and Literature). A second edition appeared in 1807. In these lectures he advocated what is called the *Schlegel'sche Romantik* — the romanticism of Schlegel.

His writings are often mystical, Catholic, and reactionary. Indeed, they represent the reaction which followed the French Revolution and the Napoleonic wars.<sup>2</sup>

A leading thought in Müller's reaction against Adam Smith is the necessity of abandoning his cosmopolitanism and of founding a national political economy. Believing in the utility of a strong national feeling, he holds that opposition

<sup>1</sup> Justus Möser preceded these men with similar ideas. But his work was not in criticism of Adam Smith. He was, however, opposed to the liberal, rationalistic spirit which led up to Smith's work. He was reactionary, favoring medieval institutions. See Roscher, *Gesch. d. Nat. Oek. in Deutschland*.

<sup>2</sup> The most prominent are: —

*Von der Idee des Staats*, Dresden, 1809.

*Die Elemente der Staatskunst* (The Elements of Politics), Berlin, 1809.

*Die Theorie der Staatshaushaltung* (The Management of State Finances), Vienna, 1812.

*Versuch einer neuen Theorie des Geldes* (An Essay on a New Theory of Money), Leipzig, 1816.

*Von der Notwendigkeit einer theologischen Grundlage der gesamten Staatswissenschaften* (On the Necessity of a Theological Foundation for all the Political Sciences), Leipzig, 1819.

and contest among different countries are desirable. Protection to home industry, and even prohibition of certain exports and imports, are defended on the ground that they stimulate national feeling and give national character to the wealth of a people.<sup>1</sup> For the same reason, Müller advocates the use of paper money; the precious metals are too cosmopolitan for him. And a further argument which he makes in favor of paper money is that it furnishes the means of avoiding national debts which tend to divide people into two antagonistic parties, those who possess wealth and those who lack it.<sup>2</sup>

In his system the state is viewed in a very different light from that in which it has been regarded by any other writer considered thus far. To him government, in itself, is a good and not an evil. In opposition to the atomistic individualism of Adam Smith, he emphasizes the organic character of the state. He even values war, because it brings into prominence the idea of the state and the nation as a whole. Thus the welfare of others becomes an object, and individual selfishness occupies a less prominent position than in times of peace. But, while Müller desired great centralization and solidarity, he did not wish to extinguish utterly individual freedom: the individual was not to be lost, but was to attain his best development as a closely-knit member of the national organism.

It is, moreover, the state which gives security to property. It is impossible to guarantee that one's wealth shall be inviolable save through the state. Man cannot be thought of as existing in any tolerable situation outside of the state. It is to the state that we must ascribe the continuity of society and of national economic life. Progress and accumulation are thus possible.

All this meant a different economic point of view. Take value theory, for example. Müller accuses Smith of over-

<sup>1</sup> Müller comes near to Mercantilist doctrines, and is classed by Kautz as "Mercantilist-conservative." In this he differs from List. It would be an error to class him as a Mercantilist, however.

<sup>2</sup> See Stephinger, *Die Geldlehre Adam Müller's*, Stuttgart, 1909.



emphasizing exchange value and the individual point of view. All things, he said, have a twofold usefulness: one for society; one for the individual. National power (*Nationalkraft*), however, is the fundamental thing, all individual values being gained in and through this power, and existing subject to the effects of world and national movements.

"The problem of permanence is the most important of all political problems." On this account, Müller values the hereditary nobility: it connects the past with the present. Adam Müller was a warm partisan and admirer of the Middle Ages, and longed for a return to them. The world, he thought, had been led astray by gold, Roman institutions, and the enjoyment of material luxuries. Change he hated. The permanence of institutions was dear to him above all things. He thought God had ordained that agricultural laborers should be bound to the soil. Feudal burdens and institutions of all kinds, including the guilds and corporations of the Middle Ages, seemed admirable to him as binding men together and making them feel their unity. Such arrangements were better for the poorer classes, since our modern money system had made slaves of them.

Roscher considers that one of Müller's best characteristics was the earnestness with which he fought the tendency of modern political economists to overvalue economic goods and material enjoyment. He thought that the farmer should not labor exclusively for the promotion of his own material welfare, as Smith had represented him as doing; but, first of all, out of love to God, each one should consider himself a steward, administering his affairs for Him who committed the stewardship unto him.

It was in accord with this general conception that Müller distinguished a *geistiges Kapital* (spiritual capital), which earlier generations hand down to posterity in the shape of a mass of experiences and ideas.<sup>1</sup>

Although Müller accused Smith of absolutism in neglect-

<sup>1</sup> Criticized by Hermann, *Staatswirtschaftliche Untersuchungen*, 1st ed., p. 54.

ing the differences of place, his own work is not entirely exempt from this error. He did not recognize development in time. He regarded the Middle Ages as representing the normal condition of economic life for all times. He did not perceive that civilization had outgrown that period, but thought that his own time was simply an unhappy transitional state, and that the following generation would return to past institutions with a consciousness of their superiority.<sup>1</sup> Müller may also be criticized for overlooking the part played by individuals and for recognizing them only as they work for the state.<sup>2</sup>

While opposing Smith, Müller did not hesitate to express his admiration for him. He called Adam Smith "the incomparable scholar and the greatest of politico-economic writers of all times."<sup>3</sup> But Müller held that Smith in writing his *Wealth of Nations*, presupposed as a basis for his economic system a condition of affairs and an historical growth such as had taken place in England. This is true. Here, as in many other places, Müller corrected the one-sidedness of Smith. He did this again in calling attention to the evil effects of a division of labor, or, as he put it, "to the wicked tendency of the division of labor" (*die lasterhafte Tendenz der Arbeitstheilung*).

**Friedrich List.**—Friedrich List was born in Reutlingen, Würtemberg, in 1789. He entered the civil service at an early age, and by diligence and ability soon attained a very respectable position. He heard lectures in Tübingen, and in 1818 was made professor of political science in the university at that place. He used his professorship as a means of attacking the bureaucratic routine of the civil service in Würtemberg, and at the same time advocated in the press the cause of constitutional monarchy. List opposed the union of the government of Würtemberg with the reaction-

<sup>1</sup> Cf. Knies, *Die Politische Oekonomie vom Standpunkte der geschichtlichen Methode*, § 23.

<sup>2</sup> Hildebrand, *Die Nationalökonomie der Gegenwart und Zukunft*, I, Chap. II.

<sup>3</sup> Cf. Roscher's *Gesch. d. Nat. Oek. in Deutschland*, § 163.

ary elements of the parliament, and was called to account by the government for having written opposition articles, whereupon he resigned his professorship in 1819. He was then made counsel of the German Commercial and Industrial Union (Deutscher Handels- und Gewerbeverein), which he had helped to found. One object of this union was to abolish duties on goods passing from one German state to another and to replace them by duties on the frontiers of Germany.

At about this time it is probable that List read and was influenced by Ferrier and L. Say, — especially the former, whose *Du Gouvernement* was published in 1802, — both of which French writers favored protection.

Reutlingen sent him to parliament as its representative in 1820. At the time, he made a speech in Reutlingen, advocating reforms which were then considered very radical. Among other things, he wished to do away with tolls on roads, tithes, the greater part of the state industries, feudal burdens resting on land, and excise duties; and sought to introduce publicity and trial by jury into the judicial administration. He also favored a decided reduction in the number of civil service officers, the sale of public domains, and a single direct income tax to meet the expenses of government.<sup>1</sup> This displeased the powers in authority, and a petition which he directed to the estates of the realm, in which he pointed out abuses in the administration and in the courts, met with still less favor. He was expelled from parliament, and sentenced to ten months' imprisonment. The government of Würtemberg finally agreed to give him his liberty on condition that he should leave the country. He consented to this, and emigrated to America.

He bought a farm near Harrisburg in Pennsylvania, but later became a successful editor and a speculator in coal mines and railways. In Reading, he published the *National Zeitung*, and wrote a number of articles for it on free trade, which, in 1827, were published in the form of a pamphlet

<sup>1</sup> See Roscher, *Gesch. der Nat. Oek. in Deutsch.*, § 970.

entitled *Outlines of American Political Economy*. This was done at the request of the Pennsylvania Society for the Advancement of Manufacture and Arts. These articles contained the leading ideas of his great work, *National System of Political Economy*, published fourteen years later. List's residence in America deeply colored his economic views.<sup>1</sup> Some new ideas he gathered from the writings of Alexander Hamilton and more from Daniel Raymond. But chiefly he profited by observation of the young and rapidly progressing economy which surrounded him. "There only," he writes, "have I obtained a clear idea of the gradual development of the economy of a people." "There the contrasts between agricultural and manufacturing countries are exemplified in the most decided manner, and cause the most disastrous revulsions."<sup>2</sup>

In 1832 he went to Germany as United States consul in Leipsig, and, though very ill-received in his native land, never returned to America.

His first literary labor after this was his work on the *Rotteck-Welckersche Staatslexicon*, an organ of South German liberals. He also began at once an agitation for a system of railways in Germany. With this in view, he was a frequent contributor to the press, and wrote a work called *Ueber ein sächsisches Eisenbahnsystem als Grundlage eines allgemeinen deutschen Eisenbahnsystems* (A Saxon Railway System as a Foundation of a universal German Railway System), published in Leipsig in 1833. About this time he wrote an essay for the French Academy on a subject which they had assigned: "What must be considered by a Nation desirous of introducing Free Trade in order in the most just manner to reconcile the interests of consumers and producers?" List's essay did not receive the prize, but was declared by the Academy to be *surtout remarquable*. Finally, in 1841, he published the first volume of his great

<sup>1</sup> But see Ladenthin, E., *Zur Entwicklung der nationalökonomischen Ansichten Fr. Lists* (Vienna, 1912).

<sup>2</sup> Preface to *National System of Political Economy*.

work, *National System of Political Economy*. It was the design of List to complete the work in three volumes, but the first alone was finished.<sup>1</sup> It treated of international commerce, the functions of government in matters of trade, and the German customs union.

In his *National System*, List considers chiefly that part of the science which deals with international commerce. *He has one distinct end immediately in view, which is to overthrow the free-trade principles of the "School," as he calls Adam Smith, Jean-Baptiste Say, and their followers:* while back of this lay his desire to show the nations how they might overthrow England's commercial supremacy. He takes up the subject of international commerce, and makes his whole work center about that, because of all the questions of political economy he considers it to have the preponderant interest. The prosperity and even the existence of nations may be sacrificed by a false commercial policy. At present, he holds, it is of particular importance to devote one's attention to this matter, because the rapid progress of the era renders it more dangerous than ever before to take any false position. In no previous period had the distance between stationary and advancing peoples increased so rapidly. In past times it was a work of centuries for one nation to obtain a monopoly of woollen manufactures, while in his own time, he says, it required but ten years for one people to obtain control of the manufacture of cotton, and the start of a few years might enable that most dangerous country, England, to monopolize the flax industry of Europe.

List begins the Introduction to his work by calling attention to the difference between science and practice in the

<sup>1</sup> His collected writings were published together with a biography by Häusser in three volumes in Stuttgart in 1850 and 1851.

The *National System of Political Economy* has been translated into English and published in Philadelphia by J. B. Lippincott. This translation, made by G. A. Matile, contains a preliminary essay on the history of political economy and notes on the text by Stephen Colwell of Philadelphia, together with the notes of the French translation by Henri Richelot. (The note references are to this translation and the quotations are taken from it.) There is a later translation (1904, Longmans, Green, and Co.) with a good introductory essay by Professor J. S. Nicholson.

questions of political economy. He maintains that both sides have erred, though the chief error appears to be on the side of the men of theory. The men of the School, the followers of Adam Smith, have looked away from the world as it is and built upon suppositions which do not exist, never have existed, and whose future existence is only problematical. They have regarded the whole world as living in peace and harmony. The differences of nationality they have overlooked.<sup>1</sup> The adherents of Adam Smith have in fact established what List calls a cosmopolite (cosmopolitan) or universal economy. Adam Smith followed his master, Quesnay, in calling his book the *Wealth of Nations*,—of nations in general, or mankind.

Now List does not object to inquiries of this kind, if it be understood that the principles deduced apply to an imaginary and not a real state of affairs. He even admits that the deductions drawn by Smith and Say are correct, "if we assume with this School an universal association or federation of all nations as a guarantee of perpetual peace." He does maintain, however, that matters ought to be considered as they are, and not as they may become in a distant millennium. *Nations do exist, they do go to war with one another, they do take advantage of one another when they can.* The basis of the present life of the world is national life; the nation comes between the individual and humanity; there should be, then, a national political economy as well as a cosmopolitan. Accordingly, List attempts to take a realistic and historical view of political economy. He wishes to build upon the world's experience, to place himself upon the same ground as men of practice, only enlarging the view they take by considering with the aid of history, policy, and philosophy "the exigencies of the future and the higher interests of the whole human race." So, immediately after his introduction, he begins a review of the history of free trade and protection in the leading modern nations. *His work might, indeed, have been entitled the History of the*

<sup>1</sup> *National System of Political Economy*, p. 193.

*Policy of Modern Nations in Respect to International Commerce.*

He discovers that the economic life of nations, save those lying in the tropics, may be divided into five periods: first, there is the hunting or fishing or savage stage; this is followed by the pastoral stage; people continue to wander for a time, but are finally compelled by external pressure to settle permanently somewhere and gain a livelihood by agriculture, thus entering the agricultural stage; afterwards manufactures are introduced, this constituting the agricultural and manufacturing stage; finally, commerce is added and the fifth stage, the agricultural, manufacturing, and commercial stage, is attained. As these stages represent a continual advancement in material life, the proper office of legislation is to aid in the transition from a lower to a higher stage.

Different measures are required in different periods. In the lowest stage, that of hunters, free trade should be encouraged as the means of developing higher wants in the people and thus leading them to a more advanced economic stage. As their desires increased, they would take up agriculture more extensively and improve their cultivation in order to obtain raw material to exchange for the manufactured articles of foreign countries. Presently, they would manifest a desire to manufacture these articles for themselves, and then it would be time for government to introduce protective measures. Only in this manner could they ever enjoy the advantages of manufactures, even if they possessed natural facilities for them, because older nations with more capital would otherwise strangle industries in their infancy. They could sell even below cost for a time long enough to ruin the weak establishments of the new country. Navigation and manufactures should be protected, until the country might become strong enough to compete with any other country, when free trade should again be introduced to stimulate manufactures and commerce by international competition.

Thus government activity is given a large part in List's teaching.

The countries of the torrid zone, he held, had not the gifts which fitted them ever to become manufacturing nations. Nature had failed to bestow upon the people of the tropics the requisite energy. They possessed, nevertheless, a natural monopoly of many products greatly desired by northern countries, and their only road to wealth lay in continuing to exchange agricultural products for manufactured commodities. Northern nations were to carry on trade freely with the countries of the tropics, but with one another they ought all to adopt protective measures.

No high state of civilization could be attained without manufactures, an exclusively agricultural people being necessarily rude and barbarous. Agriculture and manufactures should be side by side to stimulate each other and to save the cost of transportation. When they are together under the same political power, List said, they are disturbed by no war; they live in perpetual peace.

Besides his attacks on the cosmopolitanism and free-trade doctrines of the School, — the latter being assailed through an examination of England's own growth and the history of the United States, — List also criticized the principle of division of labor and the emphasis laid on exchange value.

The true principle of the division of labor is the same thing as association of labor or coöperation. If a dozen men are engaged in work on one pair of shoes, the labor is divided, it is true, but the results of that labor are united in the one pair of shoes. The men are all working together. Adam Smith gives in his *Wealth of Nations* an example of division of labor in the manufacture of pins, which has become celebrated. The labor of a few men united or divided — it might be put either way — in this manner accomplishes many times more than it would if they worked separately, each for himself. But suppose that, instead of laboring in the same factory, or at any rate near together, the men who made the heads and those who made the points



lived in remote countries, would it then work so well? Might not the men who made the heads manufacture too many in expectation of a greater number of points than were actually imported? Might not, in fact, their entire labor be rendered useless by a war which would cut off the supply of points altogether? Now if this process of division of labor be extended between different countries, might not war or disasters in one country produce a general commercial crash?

Perhaps List is in no place more original or successful than in the exposition of his theory of productive forces and immaterial capital.<sup>1</sup> As at other points, it corrects the one-sidedness of Smith, who had considered value in exchange with little reference to productive power. He supposes two fathers, farmers, each having five sons. Each receives an income of \$1000 in excess of his necessary expenses. The one saves it and keeps his sons at manual labor. The other spends it in educating three sons for some profession and in training the other two to become skilled agriculturists. Both fathers die. The first is richer in exchange values. He has left more property. His possessions are divided among five sons. In the second case the productive powers are greater. The farm is divided between the two sons, who have become so skillful that each half yields its possessor as much perhaps as the whole did formerly. The other three sons have been so trained that they are able to take care of themselves. In the one case there is ignorance and increasing poverty as the estate becomes more and more divided; in the other, new talents and aptitudes for the production of wealth are developed, and these go on increasing from father to son to the benefit of society. The mere accumulation of exchange values, then, is not all-important, but is surpassed by the increase of productive power: "*The power of producing wealth is therefore infinitely more important than wealth itself; it insures not only the possession and the increase of what has*

<sup>1</sup> Cf. Hermann's criticism of this idea as to personal elements, below, p. 307.

been gained, but also the replacement of what has been lost."<sup>1</sup> Thus good morals, intelligence, monogamy, and Christianity are creative of productive forces. All those members of society who tend to develop in any way true manhood and womanhood are productive, not "sterile" or barren, as they might have been called by the Physiocrats, or "unproductive," as Adam Smith designated some of them.

It is false, List claims, to say that labor is the source of value. Whole nations may be in poverty, despite the labor of their citizens. The most depends upon society: whether sciences and arts are developed; whether good institutions, laws, religion, morality, security, and freedom exist; whether agriculture, manufactures, and commerce are harmoniously extended.

These ideas are fundamentally connected with List's theory of protection.

List's views led him to optimistic conclusions as to the future. He was opposed to the Malthusian doctrine, though more to the popular and dogmatic representations of it than to Malthus' own teachings. These List does not appear to have carefully studied.<sup>2</sup>

As in Müller's writings, one finds in those of List a protest against the absolutistic tendencies of the School. Neither one, however, is himself free from them. Müller, as already observed, neglected the various developments of different times. List, on the other hand, does not consider sufficiently the diversity in the growth of countries. He lays down one rule for all to follow. He simply makes a distinction between the countries of the temperate zones and those of the tropics, a difference which, as Knies has shown, includes a new error. So he is wrong in maintaining that "the production of raw materials and commodities among the great nations of temperate climes has no real importance but in regard to internal trade."<sup>3</sup> The produc-

<sup>1</sup> Chap. XII, paragraph 3.

<sup>2</sup> Cf. *National System*, Bk. II, "The Theory," middle of Chap. XI.

<sup>3</sup> *National System*, pp. 76-77.

tion of raw material is at present of the greatest importance for the foreign commerce of the United States. The division he makes is artificial, and cannot be supported by history. It is unreasonable to suppose that all peoples between the Tropic of Cancer and the Tropic of Capricorn should always be content to devote themselves exclusively to agriculture. And again, the history and present condition of the Orient show a considerable growth of commerce following immediately upon the agricultural stage without waiting for the development of manufactures. Having once recognized a difference of development in place, he ought to have studied more carefully the historic order of national growth.

List is also open to criticism on the score of not doing full justice to Adam Smith. That writer was by no means so absolutely blind to national lines, warfare, etc., as List would represent him; but made room for certain duties and bounties and held that "defence is of much more importance than opulence."

List has many followers to this day, though they have generally taken agriculture within the protective wall, and his influence is strong among German officials. German railway policy has been colored by his economic principles; and expanding German nationalism seized upon his arguments for a national marine and a united territory bounded by sea coasts both north and south. In the United States the platform of the Republican party for a long time was based upon his doctrines.<sup>1</sup>

**Henry C. Carey.**<sup>2</sup> — Though in many respects a follower of Smith, Carey was also a critic of the Classical political economy. He was a protectionist and a Nationalist. Carey's arguments in favor of protection are somewhat different from those advanced by List. He brings other points into special prominence. He lays weight, as does List, upon

<sup>1</sup> A section accordingly split off from that party when it abandoned List's idea of evolutionary protectionism.

<sup>2</sup> For Carey's life and writings, see above, pp. 285 ff. It is to be remembered that Daniel Raymond expressed nationalistic views before Carey. See above, pp. 283 f.

the civilizing influence of manufactures and commerce. He holds that America would be a stupid, uninteresting, and barbarous country, if all Americans devoted themselves to agriculture; and agriculture itself would be in a poor way, as the products of the land would then find no convenient market. The cost of transportation to distant countries would consume the greater share of the farmer's profits. While it might be possible to prove Carey's statement that "the first and heaviest tax to be paid by land and labor is that of transportation," it is surprising to read the sentence following, in which the ratio between the distance goods are transported to the cost of transportation is defined with mathematical accuracy. The cost of transportation, says Carey, "increases in geometrical proportion as the distance from market increases arithmetically." This is far from being true.

However, Carey's arguments in favor of protection by no means depend upon the accuracy of this formula. His two chief points are the benefit of association, and the necessity of returning to the earth what is taken from it. Association develops individuality, "which has ever been in the ratio of the power of man to combine with his fellow-men." Now if protection favors the growth of association, it ought to be encouraged. This follows from the very definition of social science given by Carey; for it is defined to be "the science of the laws which govern man in his efforts to secure for himself the highest individuality and the greatest power of association with his fellow-men."<sup>1</sup> Association cannot take place to any great extent among those who pursue the same employment. Diversity is needed. Unlikes unite and supplement each other. The farmer combines with the blacksmith, and the miller with the baker. The diversity of pursuit promotes and requires intellectual development. America does not wish to become a great farm for a city called England; but this is what would result from following British policy. "It is selfish and repulsive," says Carey, "its

<sup>1</sup> *Principles of Social Science*, p. 47 (Philadelphia, 1858-1859).

essential object being the separation of the consumers and the producers of the world. In that direction lie poverty and slavery." It has impoverished every land which has followed it, as Ireland, India, Portugal, Turkey, and the West Indies. It is even ruining England herself. She is constantly exhausting the countries with which she deals, and is obliged to seek continually new markets. She thus becomes more and more dependent upon the rest of the world. Any change in the policy of other countries or interruption of trade by war or natural calamity must bring misery, to the English people. All efforts are put forth for the one end of cheap production. Wages are reduced, and man is regarded as but a machine. A few become wealthy, but the people as a whole remain poor and wretched.

Carey's second leading argument is the necessity of returning to the soil what has been taken from it. He lays down this law: "The consumer must take his place beside the producer in order to enable man to comply with the condition on which he obtains loans from the great bank of mother earth — the simple condition that when he shall have done with the capital furnished to him, he shall return it to the place whence it has been taken."<sup>1</sup> If this is not done, Carey holds that the soil becomes exhausted and the land less productive. Accordingly, if a land begins by exporting raw material, it will end by exporting men, as in the case of Ireland. If, however, produce is carried only to neighboring cities, they return it to the land in the shape of fertilizers.

This argument concerning the exhaustion of the soil is undoubtedly quite specious. It implies a denial of the fact that by foreign trade the wealth of a nation may be increased; for if it be admitted that exchange with other countries is profitable, it must follow that by such exchange a nation may gain increased power to refresh its soil. Other and possibly cheaper ways exist by which produce may be returned to the soil than by retaining a portion for direct application, as, for example, by the use of chemical fertilizers

<sup>1</sup> *Social Science*, p. 53.

or the growth of certain crops; and to restrict foreign trade may check these means of restoring any lost fertility.

As a follower of Carey, E. Dühring, a German economist, is worthy of brief mention.<sup>1</sup>

**Summary.** — Of the economists discussed in this chapter, it may be said that they stood for much criticism of the Classical political economy, and especially criticism on the score of its individualism and cosmopolitanism. They were Nationalists. They emphasized the nation as an important fact, often regarding it as a living organism or as a quasi-organism, and placing it above the individual and between him and the world. Well down to this day, German economists have frequently called their science *National Oekonomie*.

Accordingly they stood for protection, accusing England's thinkers of recommending in free trade what would benefit their own nation alone, at least in the then-existing stage of relative development.

In this connection, the historical idea frequently appears, and Müller and List are noteworthy as precursors of the Historical School. The former's resort to earlier times and his treatment of the state as an organism suggest this, but List, with his discussion of stages in the evolution of nations, was more truly historical. To the extent that these analyses of institutions and stages are ideals spun out of the mind, they are, of course, mechanical in nature, and not truly historical, and this is largely true of Müller's thought.

Consistently with their leading idea, Müller, List, and Carey criticized the one-sidedness of the principle of division of labor as developed by Smith. They called attention to the association or coöperation phase of it.

Their attitude toward individualism and materialism was such that they were led to attack the emphasis laid on objective exchange value in one way or another. This Müller and List did from a predominantly ethical point of view.

<sup>1</sup> *Kapital und Arbeit*, 1865.

*Die Verkleinerer Carey's*, 1868.

*Kritische Geschichte der Nationalökonomie*, 1871.

*Kursus der National- und Sozialökonomie*, 1873.

Müller painted the darker tints of the money economy and desired to retain the remnants of the "natural economy" of the Middle Ages. List accepted the economy of his time, but assailed Smithian teaching on the ground that it worked toward an English monopoly of trade; and Carey likewise developed his doctrine of protection in the interest of his young nation.

Though, in a sense, absolutists themselves, their criticisms served to offset the absolutism of the Classical School, and paved the way for a broader and truer economics.

## c. SOCIALISTIC CRITICS

### CHAPTER XXI

#### EARLY NINETEENTH-CENTURY SOCIALISM<sup>1</sup>

THE changes involved in the Industrial Revolution brought many industrial maladjustments and economic ills in their train. Poverty, misery, and crises became frequent. Naturally then, in seeking reasons and remedies for these things, some were led to criticize the whole movement and the system of economic thought which attended it. The critic Sismondi was so inclined, but accepted the existing social order and the main outlines of the Classical system of thought. Others sought relief in a romantic reaction to the cast-off institutions of medieval times. In this chapter, however, a group of thinkers will be discussed, who, while accepting the technical industrial progress of the time, with its large-scale production and division of labor, opposed some of the fundamental ideas and institutions of the existing social order, and censured the economists for postulating certain social institutions as though they were ultimate and merely to be taken for granted. They sought no mere chimera. They proceeded upon no merely moral basis. And in this general way their schemes differed from those of Sir Thomas More, Mably, Morelly, Godwin, and Babeuf. Theirs was an economic point of view; and their criticism sprang out of the

<sup>1</sup> See Ely, *French and German Socialism*; Kirkup, *History of Socialism*; Sombart, *Socialism and the Social Movement*; Rae, *Contemporary Socialism*; Menger, *The Right to the whole Produce of Labor*; Gide-Rist, *Histoire des Doctrines Économiques*; and many others referred to in those works. This and a succeeding chapter on Socialism do not aim to present a full account of the subject in all its social and political aspects, but merely to indicate some aspects of its significance as a criticism of economic theory.



throes of the Industrial and French Revolutions. In a word, the men now to be treated were anti-capitalistic, and advocated sweeping economic reforms. They criticized the existing idea of private property and competition. They were either Socialists or Communists.

It is characteristic of these early Socialists that their thought partook of the transitional condition of the time. As youths the first of them imbibed the optimism of the early French Revolution, as illustrated by Godwin, with his ideas of human perfectibility.<sup>1</sup> The idealistic nature philosophy of the eighteenth century lingered on into the nineteenth, and is seen in their thought. But all the time the class of permanent wage-earners and a realization of its oppressed condition, grew. Modern industrialism was beginning to take shape. The Smithian economics was essentially *bourgeois* or capitalistic and middle-class; and as the *proletariat* or wage-earning class became more numerous and distinct, the conflicts between their interests and the doctrines of the Classical economics began to appear. On the one hand, the revolutions in philosophical and political thought had hardly been consummated, and their principles had not been thoroughly applied. On the other hand, the evils of the revolution in industry were beginning to show. But for the time men had reacted against the excesses of the French Revolution; and, as the uneducated and riotous proletariat seemed incapable and its class consciousness was undeveloped, self-help did not seem adequate as a solution. What, then, was to be done?

Under such circumstances there arose the three noted utopists, Saint-Simon, Owen, and Fourier, who almost simultaneously conceived the idea of bringing down aid to the poor from above, of regenerating mankind by educating them to live in an ideal social order guided by the wisest and best among them. In their schemes for social reform these men were speculative, and reasoned from ideal postulates. Moreover, they were broadly humanitarian in their plans,

<sup>1</sup> Above, p. 231.

differing from later Socialists in that they did not seek to organize the laborers in class-conflict, but to improve the lot of humanity through educational experimentation. They were not revolutionary, but appealed to the dominant classes for aid. They were rather *bourgeois* in their ideas, the proletarian movement not having become marked until after 1830.

**I. The Utopian or Bourgeois Socialists.** — 1. *Saint-Simon and the Saint-Simonists.* — Saint-Simon (1760–1825) is notable for his breadth of view and his creative suggestiveness.<sup>1</sup> He himself departs less radically from the existing order than Owen and Fourier, though his followers went further. While suggesting modifications, he was not so clearly opposed to private property, and seems to allow it in capital when it is in the form of what he calls an investment worthy of compensation.

Neither does he have in mind the conflict between labor and capital, but a more general one between the workers and the idle. Society should be reorganized in such a way that all must work.

The heart of Saint-Simon's idea was to direct the labor of the nation so as to ameliorate the physical and moral condition of all its members. The chief needs he considered to be regular work and general education or knowledge. To this end he advocated a broad industrialism. To his mind the industrial class — including all workers — had achieved the Revolution, and upon it depended freedom. The present social classes must go. Three classes would come into existence: "savants" (intellectuals), artists, and those engaged in industrial pursuits. The nation was to be organized on an industrial basis in which industrial chiefs

<sup>1</sup> Writings of economic significance: —

*Lettres d'un Habitant de Genève*, 1803.

*L'Industrie*, 1817.

*L'Organisateur*, 1819.

*Du Système Industriel*, 1821.

*Catéchisme des Industriels*, 1823.

*Nouveau Christianisme*, 1825.

should control production. Government would thus be reduced to the direction of a national association for industrial purposes. Men would then cease exploiting one another, and mutually turn to exploit the earth. At first, Saint-Simon appears to have believed that if only the present class structure were abolished, a natural hierarchy of ability would establish itself, but later he came to feel that more positive action would be required.

All this, of course, implies his criticism of the existing system of directing industry.

His followers, and notably Bazard and Enfantin, went further than Saint-Simon in attacking private property.<sup>1</sup> As the idle class must go, and all are to work, capitalists, as such, cannot exist. In so far as their income arises from the ownership of capital, it is not earned, but is the result of exploiting labor. Under the present system the industrial chiefs dictate terms on pain of starvation, for they own the instruments of production.<sup>2</sup> Moreover, they keep these instruments through the institution of inheritance. Inheritance must be abolished, then, and the instruments of labor be socialized. In a word, a system of collectivism is advocated.

From the point of view of production, too, it was maintained that the system of inheritance does not insure that property will fall into the most capable hands.

The Saint-Simonists, like Sismondi, point out that in the organization of labor the problem is to harmonize production and consumption. Here the economists turn to *laissez-faire* competition. But this leads to struggle and loss, and crises result from recurring disturbances of the balance of production and consumption. The Socialists complain of isolated efforts and egoism.

2. *The Associationists: Owen, Fourier, and Thompson.*—Saint-Simon differed from the other utopian Socialists who are to be discussed, in that his idea was based upon a

<sup>1</sup> See *Doctrine de Saint-Simon, Première Année, Exposition*, 1829. (Paris, 1830.)

<sup>2</sup> *Ibid.*, 6<sup>e</sup> Séance.

broad socialization of industry than theirs. He differed in his idea of centralization. While Saint-Simon would have reformed society in a lump, a method which could easily suggest State Socialism, though he himself did not advocate such a radical and positive step, they sought reform in voluntary local communities. Owen and Fourier are both characterized by their advocacy of associations with a limited membership, and may be distinguished by the term "associationists." These associations were to be voluntary, springing from mutual consent of the members.

Robert Owen (1771-1858)<sup>1</sup> was less of an idealist than Saint-Simon and Fourier. He was somewhat more practical in his methods, but altogether unhistorical in spirit. His philosophy, however, had much in common with theirs. He believed that men are naturally good: evils are not inherent in the nature of things, but lie in the capitalistic system, which perverts the natural order. Concretely there are three barriers: private property, religion, the institution of marriage. In his ideal communal order these would be removed, and man's natural goodness could find free expression.

At an early age, Owen in 1800 became manager of extensive cotton mills at New Lanark. Here he was a witness of current labor abuses. He estimated that his employees were producing a vast amount of real wealth in which they had no share, and lacked a chance to develop their faculties adequately. He accordingly came to advocate education and a better environment for working people. Then his ideas grew more communistic, and he demanded the abolition of profits, speculation, money, and well-nigh the whole machinery of exchange then current. Owen believed that the just price of a good is its cost. To charge more is unjust. But profits seemed to him to arise from selling above cost, and to stimulate overproduction and lead to crises. Money based upon the value of precious metals

<sup>1</sup> For his earlier views see *A New View of Society*, 1812. His maturer doctrine is found in *The Book of the New Moral World*, 1820.

helps confuse the relation between the true values of goods in an exchange, and labor notes based upon the labor time involved in producing the goods should be used as a medium in its place.<sup>1</sup>

Owen severely arraigned the idea that competition is in the best interests of society.

Charles Fourier (1772-1837) was almost exactly contemporary with Owen, and had very similar ideas.<sup>2</sup> Although his thought is marred by loose and inexact statement, he was a keen critic of the existing industrial system.

Association is the leading idea of his thought. It is made a principle of attraction among men, like the law of gravitation in the physical world; its operation being impeded in the existing order. Harmony could be obtained only in his communities, called phalanxes, which were to contain some 1800 members and carry on production in the interest of the group. These groups would be large enough to afford all useful combinations, but not so large as to necessitate useless classes (soldiers and policemen) or to prevent general coöperation.

To the economist, Fourier's ideas concerning labor and its reward are the most interesting. He taught that all labor may be pleasant; it is only overwork that makes it painful, and overwork would be unnecessary in his associations. Moreover, a desire for change is recognized, and each member could take up some different task at the end of two hours. Between the ages of eighteen and twenty-eight a man could produce enough to warrant his passing the remainder of his life in leisure. Labor is divided by Fourier into three grades: necessary, useful, and agreeable. The first of these was to receive the highest reward; while pleasant labor of all kinds would be the lowest paid. All mem-

<sup>1</sup> This, it will be observed, would be a narrow application of Ricardo's earlier idea of a measure of value.

<sup>2</sup> *La Théorie des Quatre Mouvements et des Destinées Générales*, 1808.

*Traité de l'Association Domestique Agricole ou Attraction Industrielle*, 1822.

*Nouveau Monde Industriel et Sociétaire*, 1829.

bers were to receive a minimum. Thus his scheme makes exertion the chief basis for reward. Unfortunately, Fourier gives us no answer to the question, How, under a system of self-development and free play for individual desires, is consumption to be adjusted to production?

Perhaps Fourier is to be regarded as inconsistent on one important point, — either that, or he was not a thorough-going Socialist, — for he provided for a return to capital, as such. The surplus remaining after the minimum had been given to each member was to be distributed in such a way that five twelfths would go to labor, four twelfths to capital, and three twelfths to talent.

Fourier's merits have been summed up as follows: "There is a good deal of truth in some of his critical remarks. The importance of coöperative production has been recognized chiefly in consequence of his first pointing out the economical benefits of association. The narrow-minded fear of wholesale trade, and machinery, too, was in a measure dispelled by Fourier's unqualified recognition of their value. His remarks on the unnecessary hardships of labor and the evil consequences of excessive toil have had their influence on modern factory laws. . . . Sanitary reforms, and improvements of the laborer's homestead . . . owe not a little of their origin to the spread of Fourier's ideas."<sup>1</sup>

William Thompson was an Irish Socialist whose fame has been less than his deserts. His chief work,<sup>2</sup> entitled *An Inquiry into the Principles of the Distribution of Wealth most Conducive to Human Happiness*, was published in 1824, and contains a clear statement of ideas that form the basis of the later Marxian Socialism. In his own proposals for reform, however, Thompson was a follower of Owen.

He argues that labor produces all value in exchange, and

<sup>1</sup> Kaufmann, *Schäffle's Socialism*, cited by Ely, *French and German Socialism*, p. 100.

<sup>2</sup> Thompson also wrote: *An Appeal of one Half the Human Race, Women, against the Pretensions of the other Half, Men*, 1825; *Labour Rewarded, the Claims of Labour and Capital conciliated*, 1827; *Practical Directions for the speedy and economical establishment of Communities*, 1830.

that all the product of labor should belong to it. But with our present social institutions labor gets a bare subsistence remuneration, the balance of its product going to land and capital. Under the existing social order the dominant capitalist class regards the difference between subsistence wages and the increasing value of the social product as being a surplus value due to its superior intelligence and skill. By reason of their political power this class is enabled to make an unjust deduction from labor's product.

Accordingly Thompson thinks that there must be a reconstruction of social institutions. But he does not carry his ideas to their logical conclusion, for he would not abolish property rights nor take the whole produce of labor from capitalists and landowners. "Thompson's object like that of so many other socialists, was to prove the injustice of unearned income and private property . . . but the communistic tendencies which he borrowed from Owen prevented him from drawing its positive consequences."<sup>1</sup>

Thompson's great significance lies in the fact that the basal ideas of such later Socialists as Rodbertus and Marx concerning surplus value may be traced to him.

**II. The Transition to More Realistic<sup>2</sup> and Proletarian Socialism in France (1840-1848).**— In so far as class conflict was involved, all the insurrections and revolutions down through 1830 were essentially *bourgeois*, that is, capitalist and middle-class. They were not of and for wage-earners or laborers. But early in the thirties there came a change in this regard. Although the French revolution of July, 1830, was a *bourgeois* affair, it served to bring the proletariat into greater prominence. Then in 1831 the Lyons silk-weavers rose in insurrection. By 1837 the Chartist movement was on foot in England. Finally, in 1848, the great proletarian revolution occurred in France, and from that

<sup>1</sup> Menger, A., *The Right to the Whole Produce of Labour*, p. 59 (Foxwell ed.).

<sup>2</sup> The words "realism" and "realistic" are not here used in their philosophical sense, but as used in art and literature, — meaning lifelike and based on facts rather than imaginary or utopian.

time modern realistic Socialism may be dated. At about the same time German Socialism took the lead.

There is, perhaps, some degree of realism manifest in the work of the following Socialists. Yet they are by no means freed from the utopian notion that all that is needed to reform society is to invent some scheme through which their ideals might speedily be realized. Their thought was transitional.

*Louis Blanc.*—Louis Blanc (1813–1882) was not the most original of the early Socialists, but he is notable for being the first to make the connection between politics and social reform. The preceding Socialistic thinkers had depended upon education, upon a recognition of the truth of their doctrines, for the spread of the system advocated. Association was to be voluntary and unaided by the state. With Blanc the state was depended upon to aid in carrying out the system proposed.

But in a sense Louis Blanc is only transitional in this regard. Indeed, he is sometimes classed as an associationist,<sup>1</sup> and he advocated social workshops (*ateliers sociaux*) where men in similar industries would coöperate. Socialism proper would thus exist only within various separate branches of industry, presumably leaving the relations between these branches to the régime of contract and competition. Blanc's associations were to be initiated and subsidized by the state, however, and were not the self-sufficient units of Owen and Fourier.

Louis Blanc's celebrated work, *Organization du Travail* (Organization of Labor), was published in 1841.<sup>2</sup> The central point in his thought is a desire for the broad and perfect development of each man's personality. Proceeding from the idea of the brotherhood of man, he advocated payment not according to service or productivity, but according to wants. Only by giving to each according to his needs could his goal be attained. His system, therefore, is not

<sup>1</sup> E.g. Gide-Rist, *Histoire des Doctrines Économiques*.

<sup>2</sup> There were considerable additions in a fifth edition that appeared in 1850.



like that of the later Socialists, based upon a demand for "the whole produce of labor," but upon the more philanthropic idea of a right to subsistence (*droit à la vie*).

Certainly such a distribution of property and income does not now exist; and competition, to which distribution in the existing order is submitted, he fairly anathematized. It is murderous warfare. It places a man outside of society, emphasizing his rights without indicating his duties. We must seek a new organization which will abolish individualism, competition, and private property, and in their stead place fraternity and harmony.

His *ateliers*, as established in the different industries, were to bring production to this level and to afford to all a "natural" right, that is, the right to work (*droit au travail*). But the poor laborers were in no position to set up these shops; therefore the state was appealed to, and was to organize them and furnish the funds. After the first year, however, the heads would be elected.

Inasmuch as Louis Blanc advocated needs or wants as a basis for rewards, he is to be classed as a Communist. He was no *égalitaire*, however, for he wrote: "Equality, then, is only proportionality, and it exists in a true manner only when each one in accordance with the law written in some shape in his organization by God himself, *produces according to his Faculties and consumes according to his Wants.*"<sup>1</sup>

*Proudhon.*—With Pierre-Joseph Proudhon (1809–1865) one comes to a thoroughly proletarian Socialism, and the beginning of one line of Anarchism. Indeed, one finds in his thought much that foreshadows the doctrines of the more "scientific" Socialism taught by Marx and Engels. More sharply and directly than any of the others Proudhon centered his attack upon property rights. Property as distinguished from possession, he said, is robbery; property-owners are thieves.<sup>2</sup> Even to common property in a communis-

<sup>1</sup> *Organisation du Travail*, 9th ed., p. 72. Later, as a practical measure, Blanc proposed absolute equality.

<sup>2</sup> *Qu'est qui la propriété?* (What is Property), 1840. *Works*, Vol. I, translated by Benjamin R. Tucker, Boston, 1876.

tic state he objects, and in this foreshadows the split between Socialism and Anarchism.

He makes short work of the idea that occupation justifies private property, turning his attention chiefly to land. J. B. Say is quoted as justifying property in land on the ground that land is fixed and limited in extent; but that merely explains the existence of property, — it does not justify ownership. And Comte's argument from limited supply seems to Proudhon to go against him, for that is the reason why land should be free to all. If it were unlimited, all might have property in it and no one would be hurt.

But what of the labor theory of property? If labor is to justify property, Proudhon thinks that whenever any one labors on a farm he must acquire property rights in it. "The laborer retains, even after he has received his wages, a natural right of property in the thing which he produced." What labor does is to create increased capacity, and its proper reward is the additional income that results. This does not convey ownership in the soil itself. That no man has made. In short, land is the gift of nature, bestowed upon all equally, and no man has a right to appropriate it and its rent for his own use.

Property-owners are robbers because they have made others labor for them, who have lost in laboring what the owners gained. All who labor should become proprietors: "this is an inevitable deduction from the acknowledged principles of political economy and jurisprudence, and when I say proprietor, I do not mean simply (as do our hypocritical economists) proprietor of his allowance, his salary, his wages, — I mean proprietor of the value which he creates, and by which the master alone profits." Here, then, is the idea of a surplus value, as to which labor is exploited.

At one point Proudhon undertakes to explain how it is that capitalists take a profit from the laborer's product. The capitalist pays each laborer of a group a mere day's wage. But in the combined labor of the group there is an advantage for which he does not pay. There is a union or

harmony through which the product exceeds the sum of the individual products of the separate laborers.

As a remedy he concludes that labor should receive an additional proportion of the product.

In accordance with these ideas Proudhon propounds a labor theory of value. He begins by mocking the economists for attempting a science while professing that there is no absolute measure of value. To him the matter is simple. "The absolute value of a thing, then, is its cost in time and expense." A diamond in the rough is worth nothing; cut and mounted it is worth the time and expense involved. But it sells for more than this; — that is because men are not free. Therefore "society must regulate the exchange and distribution of the rarest things, as it does that of the most common ones, in such a way that each may share in the enjoyment of them." Value based upon opinion (or utility) is delusion and robbery.

Somewhat paradoxically Proudhon attacks the thought of his Socialistic predecessors.<sup>1</sup> He rejects association of labor as encroaching upon the liberty of the laborers. Likewise Communism, he thought, would lead to inequality, being an exploitation of the strong by the weak. His position can be interpreted only by grasping his desire to *harmonize property and community through liberty* after the manner of Hegel's dialectic. Thus he would not have abolished property, but rather have limited it. He would have confined property rights to those things that are clearly produced by labor, and have based them upon labor. Interest, rent, and profits he would have abolished. In this course a distinction is drawn between ownership and possession which came more easily to one who lived under the civil law than to an Englishman. Possession he would have allowed to individuals. Thus liberty and property could be made to exist side by side. On the other hand community must modify property, but must not restrict freedom. Therefore he

<sup>1</sup> See *Système des contradictions économiques, ou philosophies de la misère*, 1846; and also the earlier work, *What is Property?*

taught an anarchistic sort of Communism! This latter paradox he solved through a belief that liberty and equality were one, — that is, the social coöperation, easy tasks, and equal means of performing them, which he would have instituted, would make equal rewards natural. Liberty exists only in the social state; in such a state all have equal capacities for performing tasks; social tasks are equal.

To this whole group of ideas Proudhon applied the term "mutualism." By this he meant that reciprocity of services was to govern economic relations: rights and duties were to be mutual. The idea is illustrated by the chief positive reform that he advocated, namely, his celebrated exchange bank. Here products would be exchanged without the intervention of money. Paper money would be issued for goods according to the labor-time required for their production, and this medium would exchange for any goods which cost the same labor. Credit, too, would be granted to every one, helping reduce interest to its normal rate, which according to Proudhon is nil. Consequently the instruments of production could be freely obtained by all, and landlords and capitalists would cease to exist. Thus would mutuality reign.

A notable feature of Proudhon's thought is its emphasis of the collective or social character of modern production. Neither labor, nor land, nor capital is productive alone; production results from their coöperation. And he quotes the economist Droz<sup>1</sup> with approval as saying: "Say credits capital with an active part unwarranted by its nature; left to itself, it is an idle tool." All production being necessarily collective, the laborer is entitled to a share in the product. All accumulated capital being social property, no one can be its exclusive proprietor.

**III. Summary.** — The foregoing "Socialists" range all the way from those who merely advocated radical schemes of social reform, like Saint-Simon, to Proudhon, who was touched by that modern class consciousness which has char-

<sup>1</sup> See above, p. 365.

acterized later Socialism. Moreover, they differed widely in the basis of distribution which they favored: Owen and Blanc were Communists and believed in relative equality in distribution, while the others proposed rewards in accord with some measure of productive contribution. Nevertheless, they were all pioneers in socialistic thought, and all were more or less utopian, or "unscientific," — a statement, the full force of which will be realized when their ideas are compared with the thought of Rodbertus and Marx as set forth in a later chapter.

It is scarcely necessary to criticize the thought of the early Socialists. Their utopianism vitiates a great deal of it. It is too one-sidedly idealistic. And its bourgeois origin rendered it inadequate to meet the demands of a suffering and increasingly class-conscious proletariat. On the constructive side a characteristic weakness is shown in the absence of any practicable plan for distribution according to wants or the other bases proposed. In some cases the whole scheme is invalidated by containing discordant elements which would probably intensify competition, etc. Proudhon's theory of value is subject to the same criticism as that of Marx, who was influenced by him, and the criticism of Marx's theory will be found in a later chapter.

Considered from the standpoint of their effect upon the stream of economic thought, these Socialists of the first half of the nineteenth century, though their influence was largely indirect and rather gradual, are of considerable importance. In the first place, they raised the question of distributive justice in such a way as to make it more urgent, and placed it in a new light. Put in another way, they criticized economists for being content with what is, rather than what ought to be, and in so doing they especially criticized them for taking for granted various social institutions. In these criticisms the Socialists discussed in the foregoing chapter led the way for the German Historical School of economists, and the close relation between the Historical School and the "Socialists of the Chair" is suggested.

In the second place, then, these early Socialists brought out the significance of property and inheritance, both for distribution and production. On the one hand, they all emphasized the importance of property rights as affecting distribution, tending to place the question of property distribution before that of income distribution; while the economists generally took the former for granted. On the other hand, some of them made the point that the socialization of property would do away with wasteful or less useful production. They did not accept private property as a fixed fact. They taught that it is a relative institution with an historical development. So far they were correct. But they went beyond reason when they argued for the abolition of private property instead of qualifications or limitations upon it.

Again they all taught some basis for distribution other than costs as determined by competition. With Saint-Simon it was "To each according to his capacity, to each capacity according to results." Fourier would have rewarded "each according to his capital, his labor, and his skill." Louis Blanc made wants the basis. Proudhon said: "The capacity, given to all, of accomplishing a social task, — and the impossibility of paying one laborer save in the products of another, justify the equality of wages." These ideas, of course, would chiefly affect wage theories and policies, in so far as they exerted any influence.

Their general emphasis of the social point of view and of the social nature of the productive process no doubt served as an able corrective to the extremely individualistic tendencies of the Classical School.

And closely related to this point is the influence that they have exerted in the direction of practical coöperation. Owen and Fourier are to be remembered in this connection. Not only did they stimulate many practical experiments, but the discussion of their ideas, or those similar to them, has figured prominently in theories of labor and wages.

Finally, these men had ideas of social evolution. They

are to be remembered in connection with the idea of stages in the evolution of society, the thought of Saint-Simon and Fourier being most elaborated on this point. The Saint-Simonians believed that "Humanity is a collective being which develops; that being has grown from generation to generation, as an individual man grows, in the succession of life periods [*âges*]." <sup>1</sup> And Fourier thought of humanity as pursuing a career in which there were three great stages with eight periods.

<sup>1</sup> *Doctrine de Saint-Simon*, 1<sup>o</sup> An., p. 45. August Comte's ideas along this line were in part drawn from Saint-Simon, who was his teacher for a time. But all these utopists lacked a true historical sense of institutional development, a fact which is evidenced by their failure to appreciate the social value of private property, religion, and marriage, and their advocacy of abolition or destruction rather than modification of such institutions.

#### IV. THE RESTATEMENT

RICARDO had developed a certain side of Adam Smith's political economy, carrying it to its logical conclusion. Malthus added his theory of population; Senior his abstinence theory; and several writers contributed refinements at this or that point. There was still room, however, for one who should be broad enough to survey the whole field and fuse these various elements into a systematic body of doctrine. In fact, there was need for a restatement of the Classical economics: a restatement which would take into consideration the criticisms of the old system, and current conditions; one that would at least begin to realize the insufficiency of the existing political economy in relation to the problems of modern society, and so prepare the way for a new economics. This was the work of John Stuart Mill.



## CHAPTER XXII

### JOHN STUART MILL

IF Adam Smith may be called the Father of Political Economy, John Stuart Mill was his chief heir in the direct line. He it was who, about the middle of the last century, combined, restated, and modified the teaching of Smith, Malthus, and Ricardo, and so successfully that his work has had an effect upon English thought second to none.

Writing at a considerably later date than his great predecessors, Mill fell within the play of new forces. As will be seen, the common characterization of his thought as transitional is strikingly just. It is essential, then, to study carefully his biography, to the end that these forces may be appreciated.

**Life and Works.** — John Stuart Mill was born in London, May 20, 1806. His father, James Mill, was a man of considerable eminence as an historian, a philosopher, and a political economist. The most celebrated work written by James Mill was a History of British India. He wrote also a political economy, which, though little more than a résumé of the work of others, was of considerable influence with followers of Ricardo.

The education of John Stuart Mill was a remarkable and most successful experiment. It was partly to describe this experiment that Mill wrote his *Autobiography*. From the earliest years of his life, his father trained him with the intention of making him precisely what he became. Mill undoubtedly exaggerated the effects of the education he received, and underrated his own natural powers; but its influence was deep and lasting. He could not remember the

time when he began the study of Greek, but was told that it was when he was three years of age. In his eighth year he began the study of Latin, and when twelve, had read some of the chief classics in that tongue. Between his seventh and tenth years, while living in Newington Green, he was accustomed to take daily walks with his father, during which he would give him an account of what he had read the preceding day. While reading he made notes on slips of paper and from these prepared a narrative. In this manner he read and discussed Robertson's histories, Hume, Gibbon, Watson's *Philip II* and *Philip III*, Hooke's *History of Rome*, the last two or three volumes of Rollin's *Ancient History*, the Langhorne's translation of Plutarch, Burnet's *History of his own Time*, and the historical part of the *Annual Register* from the beginning to about 1788. He appears to have read these works voluntarily, but his father assigned him other books to read, which would not have interested him sufficiently to have led him to read them of his own accord.<sup>1</sup>

It was after he had accomplished this work in Latin, Greek, and history, together with some training in logic, and when he had already arrived at the advanced age of thirteen, that he took a complete course in political economy. This was in 1819! Two years before this time Ricardo had published his treatise on *Political Economy and Taxation*. Mill says of this work: "My father's loved and intimate friend, Ricardo, had shortly before published the book which formed so great an epoch in political economy; a book which never would have been published or written but for the entreaty and strong encouragement of my father; for Ricardo, the most modest of men, though firmly convinced of the truth of his doctrines, deemed himself so little capable of doing them justice in exposition and expression, that he shrank from the idea of publicity."<sup>2</sup> Ricardo's

<sup>1</sup> Among such he mentions Millar's *Historical View of the English Government*, Mosheim's *Ecclesiastical History*, M'Crie's *Life of John Knox*, Sewel's and Rutt's *Histories of the Quakers*, Beaver's *African Memoranda*, Collins' *Account of the First Settlement of New South Wales*.

<sup>2</sup> *Autobiography*, p. 27.

work was not suited for use as a textbook, and the elder Mill accordingly conceived the idea of writing one which should contain Ricardo's doctrines. In his walks he lectured to his son and made him write out and read the next day an account of what had been said. The notes thus prepared were used by the father in writing his *Elements of Political Economy*. After this work was completed, young Mill went through Ricardo with his father, who questioned him and explained difficulties only after the boy had given the best explanation he could. The study of Adam Smith in the same manner followed that of Ricardo.

When Mill was fourteen years of age, that is, in 1820, he went to France and spent a year there. While in Paris he passed a considerable time in the house of Jean Baptiste Say. It will be thus seen that Mill was brought up under such economic influences as would naturally lead him to a firm belief in the doctrines of Adam Smith, Malthus, and Ricardo.<sup>1</sup>

Upon his return to England in 1821, when fifteen years old, he began the study of Roman and English Law. His father put into his hands at the commencement of his legal studies Dumont's *Traité de Législation*, which contained an exposition of the principal speculations of Jeremy Bentham, the distinguished English jurist and founder of the utilitarian system of morals. Bentham was a friend of his father's, and young Mill had enjoyed the advantage of living with him a part of each of the years from 1814 to 1817.

What Mill says of his perusal of Dumont's *Traité de Législation* is very significant, and quite remarkable when one remembers that it is the description of the thoughts and feelings of a boy of fifteen:—

<sup>1</sup> Mill had undoubtedly remarkable advantages. He was surrounded by great men, as, *e.g.*, his father, his father's friends, Ricardo, Bentham, Grote, and John Austin. His own friends and companions were Charles Austin, Macaulay, Hyde, Charles Villiers, Strutt, afterwards Lord Belper, Romilly, afterwards Lord Romilly and Master of the Rolls, William Eyton Tooke, son of the political economist who wrote the *History of Prices*, William Ellis, an original investigator in political economy, George Graham, Frederic Maurice, and John Arthur Roebuck.

"The reading of this book was an epoch in my life; one of the turning points in my mental history.

"My previous education had been, in a certain sense, already a course of Benthamism. The Benthamic standard of 'the greatest happiness' was that which I had always been taught to apply; . . . Yet in the first pages of Bentham it burst upon me with all the force of novelty. What thus impressed me was the chapter in which Bentham passed judgment on the common modes of reasoning in morals and legislation, deduced from phrases like 'law of nature,' 'right reason,' 'the moral sense,' 'natural rectitude,' and the like, and characterized them as dogmatism in disguise, imposing its sentiments upon others under cover of sounding expressions which convey no reason for the sentiment, but set up the sentiment as its own reason. It had not struck me before that Bentham's principle put an end to all this. The feeling rushed upon me that all previous moralists were superseded, and that here, indeed, was the commencement of a new era in thought. . . . When I laid down the last volume of the *Traité*, I had become a different being. The 'principle of utility,' understood as Bentham understood it, and applied in the manner in which he applied it through these three volumes, fell exactly into its place as the keystone which held together the detached and fragmentary component parts of my knowledge and beliefs. It gave unity to my conceptions of things. I now had opinions; a creed, a doctrine, a philosophy; in one among the best senses of the word, a religion; the inculcation and diffusion of which could be made the principal outward purpose of a life. And I had a grand conception laid before me of changes to be effected in the condition of mankind through that doctrine."

During this "crisis" in his mental history, also, Mill became acquainted with and was admittedly influenced by the socialistic doctrines of the Saint-Simonian school.<sup>1</sup> In

<sup>1</sup> See above, p. 387. Since Mill's death in 1873, Miss Taylor, his step-daughter, has given to the world the contents of a manuscript he left, which was the beginning of a work on Socialism. It was published first in the *Fortnightly Review* and has since appeared in book form. In a "Preliminary Notice" Miss Taylor says: "It was in the year 1869 that, impressed with the degree in which even during the last twenty years, when the world seemed so wholly occupied with other matters, the socialist ideas of speculative thinkers had spread among the workers in every civilized country, Mr. Mill formed the design of writing a book on Socialism. Convinced that the inevitable tendencies of modern society must be to bring the questions involved in it always more and more to the front, he thought it of great practical consequence that they should be thoroughly and impartially considered, and the lines pointed out by which the best speculatively-tested theories might, without prolongation of suffering on the one hand, or unnecessary disturbance on the other, be applied to the existing order of things."

later years, and before writing his *Political Economy*, he reacted from the somewhat extravagant notions concerning the merits of Benthamism. His undoubtedly deep emotional nature, under the influence of his wife, led him more and more toward idealistic socialistic beliefs. He could never be classed as a socialist, however, and his latest writing shows that he had reacted somewhat from his leaning toward socialistic doctrines.

Mill professed to have obtained great assistance in his work from his wife, a Mrs. Taylor before she married him. He calls his acquaintance with her "the most valuable friendship of my life." He probably goes too far in ascribing to her all that is best in his writings, as he does frequently. He thought his work on *Liberty* destined to live longer than any other of his works because she had gone through every sentence of it with him. It is doubtful if the majority of his readers agree with him in the comparative estimate he placed on that work.

In 1823 Mill obtained an appointment from the East India Company, in the office of the Examiner of India Correspondence, finally rising to the post of Examiner, in which position he remained as long as the East India Company existed as a political body. This was until 1858. He considered his office work as on the whole an advantage to him, inasmuch as it brought him in contact with the business world and saved him from speculative errors into which he might have fallen, had he been less acquainted with real life and the motives by which men are influenced.

Mill began to publish his writings in 1822, when sixteen years of age. At first he wrote articles for the newspapers on economic subjects, liberty of thought and speech, etc. The *Westminster Review* was founded in 1824 by Bentham as an organ of Radicalism, and to this Mill was a frequent contributor. In the following year he was employed by Bentham to revise and edit the manuscript for his five-volume work on Evidence. But he continued to write numerous newspaper articles and essays for magazines, par-

ticularly for the *London and Westminster Review*, of which he was editor for a time, and later for the *Fortnightly Review*. Five volumes of his essays have appeared in book form, with the title *Dissertations and Discussions*.

The first important book Mill published was his *System of Logic*, the first edition of which appeared in 1843, the ninth in 1875. It is regarded generally on the Continent, as also in England, as one of the most important works on the subject ever written. A collection of *Essays on Some Unsettled Questions of Political Economy* appeared in 1844, although they had been written in 1830 and 1831, and at the time had been declined by a publisher. The *Principles of Political Economy* appeared early in 1848. A seventh edition was published in 1871. The following works appeared successively: *On Liberty*, *Considerations on Representative Government*, *Utilitarianism*, *Examination of Sir Wm. Hamilton's Philosophy*, and *Subjection of Women*.

Mill was an independent member of Parliament from 1858 to 1868. He used his position to advocate advanced liberal ideas, in particular the suffrage for women and the laboring classes. He also took up the cause of Ireland, favoring a permanent tenure at a fixed rent for Irish tenants, and brought out his ideas on this subject in a pamphlet, entitled *England and Ireland*, published in 1868.

When one turns from Quesnay, Turgot, and Smith directly to Mill, one at once feels that a new era has been entered. The science of economics has lost its youthful simplicity and *naïveté*. It is more elaborated; many parts have acquired an entirely different significance in a new time and under changed circumstances. This corresponds to a changed environment. Manufacturing industry has made gigantic progress by the aid of numerous inventions, as steam power, railways, and a minute division of labor. The laborers are no longer employed chiefly in the country and scattered here and there, as in Turgot's time and particularly in France, but are crowded together in great cities. Manufactures are no longer conducted in small workshops, in

which a few journeymen and apprentices labor side by side with the master, but in immense factories, where the capitalist stands at the head of hundreds of human beings. Large establishments begin to crowd out the little man. Population has grown rapidly, and the want of land makes itself felt. Real estate owners take advantage of the situation regardless of the welfare of other classes. While Smith, less than a century before, was able to praise the self-sacrificing generosity of the landlords and farmers or country gentlemen, the power of government is now appealed to for protection against their selfishness.

Nature, too, is viewed in an entirely different manner by Mill. In the time of Turgot and Adam Smith, she was looked upon optimistically enough as a kind, benevolent power. Jean-Jacques Rousseau had found eager listeners and believers when he preached the doctrine that nature would make all men happy if free course were only allowed her. Let nature alone, was the cry, and all will be well. In the time of Mill she is viewed as a hard and heartless power. Civilization is regarded as a struggle against her sway. The state ought to assist in bringing about a more equitable distribution of her "injustices and inequalities." There has come the beginning of a reaction against the idea that man is ruled by the environmental forces of nature. A new organization of economic relations occupies the scene, and this must be kept in mind if one would compare the former with the condition of things in Mill's day.

**The *Principles of Political Economy*.** — John Stuart Mill's chief writing on Economics, as already stated, appeared in 1848 under the full title of *Principles of Political Economy with some of their Applications to Social Philosophy*.<sup>1</sup> Political Economy he defines as a science dealing with "the nature of Wealth, and the laws of its production and distribution: including, directly or remotely, the operation of all

<sup>1</sup> The book was written during the course of two years. Though it went through seven editions in Mill's lifetime, it was not thoroughly revised and freed from inconsistency. For variation in editions, see article by M. A. Ellis in *Economic Review*, 1906, pp. 291-302; and Ashley's recent edition.

the causes by which the condition of mankind, or of any society of human beings, in respect of this universal object of human desire, is made prosperous or the reverse."<sup>1</sup>

Mill was the first among the leaders of English economic thought to adopt an arrangement similar to that now common in our textbooks: his five books being on Production, Distribution, Exchange, Influence of the Progress of Society on Production and Distribution, and The Influence of Government. In this he follows in part his father and the French expositor of Adam Smith, J. B. Say.<sup>2</sup> He differs from both, however, in abandoning their plan of devoting a distinct book to Consumption, and from Say in adding one on Exchange.

Though Mill added little to economic theory, his formulation of the doctrines of his predecessors, together with certain illustrations and applications, was such that his book has been a leading authority till very recent times. It is, therefore, fitting to discuss the essentials of his teaching.

In his introduction he distinguishes national or social wealth from individual wealth; attacks Mercantilistic ideas; passes in rapid review the various economic stages of society as he sees them; refers to the great inequalities in wealth among different countries, which are partly due to the non-arbitrary laws of production, and partly to laws of distribution, which are of human institution and arbitrary. "The laws of Production and Distribution, and some of the practical consequences deducible from them, are the subject of the following treatise."

*Value.* — Without any attempt to develop his ideas in the order he adopted, what Mill himself called a fundamental question, namely value, may at once be taken up.

In answering this question he immediately introduces the reader to a threefold classification of commodities. In the first class fall those which are absolutely limited, whose

<sup>1</sup> Preliminary Remarks, paragraph 2.

<sup>2</sup> For discussion of this subject see Cannan, *Production and Distribution*, pp. 32 ff.



supply is not increasable at pleasure, as, for instance, rare pictures. Here, too, Mill includes labor, for short periods of time, and articles of international trade, and all cases of monopoly. In this first class value depends upon demand and supply: "the value which a commodity will bring in any market is no other than the value which, in that market, gives a demand just sufficient to carry off the existing or expected supply."<sup>1</sup> Mill states that by demand we must mean "effective" demand, and to make demand and supply comparable, he takes them to mean the quantity demanded and the quantity supplied. As his "law of demand and supply" applies without modification to this class alone, it is important to ascertain what this law is. "The law is, that the demand for a commodity varies with its value, and that the value adjusts itself so that the demand shall be equal to the supply."<sup>2</sup> And it was Mill's idea that where cost of production enters — as, he argues, it does not in this first class — another law controls.

Assuming, as Mill does, a certain value to begin with, his statement of the law does not satisfy one who desires to know the cause of value. It lacks an analysis of the sources of demand.<sup>3</sup> The recognition of the interrelation of demand and supply suggested, however, seems worthy of note.

But this first class of commodities Mill held to be of relatively little importance in the theory of value. The great bulk comes under his second class: commodities which, being the result of "labor and expenditure," can be increased in indefinite quantity. Here Mill distinguishes normal and market values, and desires to find a law other than that of demand and supply for the regulation of the former, — of "permanent or average values." At any given time demand

<sup>1</sup> Bk. III, Chap. II, § 4.

<sup>2</sup> *Ibid.*, Chap. IX, § 3.

<sup>3</sup> Jevons criticized Mill's theory as follows: "It [Mr. Mill's equation] consists in stating that the quantity  $x$  given by A is equal to the quantity  $x$  received by B. But this must necessarily be the case if any exchange takes place at all. The theory of value, as expounded by Mr. Mill, fails to reach the root of the matter, and show how the amount of demand or supply is caused to vary." (*Theory of Political Economy*, 1871, p. 102.)

and supply determine market value, and they always rule its oscillations. But, where goods are producible, there is a minimum point set by cost of production; and, if they can be indefinitely multiplied, the minimum is also a maximum.<sup>1</sup> This is the normal value point. Goods whose costs of production are the same must have the same exchange value. In class two, then, there is "a superior force which makes value gravitate towards cost of Production,"<sup>2</sup> — the tendency of supply to increase to the point of lowest profitable production. To put it in another way, there is a "latent influence" which makes values conform in the long run to the cost of production. This is the variation which would otherwise take place in supply: if a good sells above the "ratio of its cost of production," its supply would increase, and *vice versa*.

Thus the value of reproducible commodities does not depend on mere demand and supply, except when there is disturbance, and pending the adjustment of supply to demand.

This is clearly an undue emphasis of supply. Supply is spoken of almost as a metaphysical entity. The influence of variation in demand is slighted. In case of a fluctuation, for example, the *modus operandi* runs thus: (1) "Natural" (normal) value equals cost of production plus profits; (2) there is a certain demand for a certain quantity at this value; (3) to this demand the supply endeavors to conform, — "the permanent tendency of supply is to conform itself to the demand which is found by experience to exist for the commodity when selling at its normal value."

But what are costs of production? Mill inclines, though not consistently, to take the entrepreneur's point of view, and includes wages and usual profits. In this he accepts Senior's analysis. He agrees with Ricardo so far as to say that the relative value of commodities depends principally on the quantity of labor,<sup>3</sup> and that in variations of value the

<sup>1</sup> Bk. III, Chap. III, § 2. Free competition assumed.

<sup>2</sup> *Ibid.*, last paragraph.

<sup>3</sup> *Ibid.*, Chap. IV, § 1.

quantity of labor is most important;<sup>1</sup> but insists that quantity and remuneration must both be considered. As to rent, with certain minor exceptions, it is not a part of costs.

Concerning the third class of commodities, those which, like agricultural produce, may be increased in supply indefinitely, but only by a more than proportionate increase in cost, Mill says little. And a discussion of the significance of increasing returns to value will be sought for in vain. This class stands midway between the others, value being determined at the point where costs of producing the needed supply are greatest.

l Mill's was an objective exchange theory. Cost of production working through supply was the basis of it. But it was not a labor-cost theory; and he made several exceptions to cost determination, so as to cover cases in which custom restricts or costs are joint. Its great weakness lies in the absence of analysis of the forces lying back of demand and supply, a difficulty which a follower meets by introducing demand price schedules and supply price schedules.<sup>2</sup>

*The Shares in Distribution in a Static Society.* — As to the determination of rent, Mill was substantially in accord with Ricardo. The rent which any land will yield with a given employment of capital is the excess of its produce, beyond what would be returned to the same capital if employed on the worst land in cultivation, situation being considered. Even if all land yielded rent, there would always be an intensive margin, and some agricultural capital which paid no rent. Mill suggests that in cases where there is an alternative use, or "scarcity values" exist, rent may enter price.<sup>3</sup>

He often regards the landowner somewhat as did Adam Smith: his "exclusive power" over natural agencies is emphasized; "rent is the effect of a monopoly" and "the reason why land-owners are able to require rent for their

<sup>1</sup> Bk. III, Chap. IV, § 3.

<sup>2</sup> Marshall, *Principles of Economics*.

<sup>3</sup> For a discussion and criticism see Haney, "Rent and Price: 'Alternative Uses' and 'Scarcity Value,'" *Quart. Jr. Econ.*, XXIV (November, 1910).

land, is that it is a commodity which many want, and which no one can obtain but from them." But, again, perhaps with his mind on Senior, he states that the landowner has no true monopoly, inasmuch as any one may buy land. Mill does not so strongly assert that the interests of the landowner are opposed to those of society as did Ricardo, but he emphasizes the point that "the interest of the landlord is decidedly hostile to the sudden and general introduction of agricultural improvements."<sup>1</sup>

Wages are determined according to a sort of devitalized wages-fund doctrine. In ordinary circumstances, he says, we may speak of wages as being determined by competition or the demand and supply of labor. This may be expressed as the proportion between population and capital, if we understand by population only those who receive wages, and by capital that devoted to wage payment. Such capital consists, Mill says, of that part of circulating capital paid in wages, and funds paid to soldiers, servants, and other "un-productive" laborers. Obviously this statement of the case is little more than a mere truism.

There is little direct evidence in the *Principles of Political Economy* that Mill held to the idea of a rigid wages fund. A few passages indicate such an idea,<sup>2</sup> but it was not carefully analyzed, nor were its consequences thoroughly understood. Probably he would not have defended it so far as the long run is concerned. But he thought a rise of wages in one trade would necessarily mean an immediate deterioration in some other, and that some time must elapse before an adjustment could take place.<sup>3</sup> Later, in 1869, under criticism by Longe and Thornton, Mill made his celebrated recantation of the wages-fund idea.<sup>4</sup>

In connection with Mill's use of the wages-fund idea, his belief in the Malthusian principle of population should be

<sup>1</sup> Bk. IV, Chap. III, § 4.

<sup>2</sup> Bk. I, Chap. V, § 9; and notably Bk. II, Chap. XII, § 1, last paragraph.

<sup>3</sup> *Political Economy*, Bk. V, Chap. X, § 5.

<sup>4</sup> For discussion of this whole subject, together with some justification of a wages-fund theory, see Taussig, *Wages and Capital*.

recalled. This principle he strongly emphasized, and his discussion of wages is influenced, no doubt, by a desire to show that, according to the fund idea, a limitation of population was practically necessary to obtain better wages.

Profits are closely related to wages. Mill cites Senior's abstinence idea<sup>1</sup> with approval, and then explains that abstinence is but a part of the cost covered by "gross profits." Besides interest, which is the usual name for that part of profits received for abstinence, "gross profits" includes wages of superintendence and indemnity for risk: it is the entrepreneur-capitalist's net income, — his surplus after paying wages. Mill states that no practical error results from disregarding rent in this case.

The amount of the entrepreneur-capitalist's gross produce depends upon the productive power of labor.<sup>2</sup> From this he makes advances in the shape of wages.<sup>2</sup> The *rate* of profit, then, depends on the proportion of the produce of labor obtained by the laborers themselves. "We thus arrive at the conclusion of Ricardo and others, that the rate of profits depends upon wages; rising as wages fall, and falling as wages rise."<sup>3</sup>

Mill, however, would modify this formula to the slight extent of substituting the phrase "cost of labor" for "wages," his ground being that real wages is only one of several factors determining the employer's "advances," the others being price of subsistence and efficiency of labor. To the capitalist, cost of production is not labor, but wages, "and since wages may be either greater or less, the quantity of labour being the same, it would seem that the value of the product cannot be determined solely by the quantity of

<sup>1</sup> See above, p. 314.

<sup>2</sup> "But materials and implements are produced by labour; . . . in the whole process of production, beginning with the materials and tools and ending with the finished product, all the advances have consisted of nothing but wages; except that certain of the capitalists concerned have, for the sake of general convenience, had their share of profit paid to them before the operation was completed. Whatever, of the ultimate product, is not profit, is repayment of wages." (Bk. II, Chap. XV, § 5.)

<sup>3</sup> Bk. II, Chap. XV, § 6.

labour, but by the quantity together with the remuneration; and that values must partly depend on wages.”<sup>1</sup>

In his discussion of profits Mill shows some traces of an influence by Senior; but, on the whole, his thought is based on Ricardo. He generally regards capital as advances to laborers, chiefly in the shape of food or sums for purchasing food. Though he explicitly places capital with labor and land as a factor in production, he reduces it to stored-up labor in resolving all expenses into wages, and his recognition of its distinctness in production is at times halting. This is inconsistent with his recognition of the abstinence basis for profits. In a word, here is found an illustration of Mill's imperfect fusing of diverse ideas. If Mill had taken Senior's suggestion and treated interest separately, not trying to lump it together with insurance, and especially with wages of superintendence, progress might have been made. He was, however, too much under the influence of his early training in Smith and Ricardo.<sup>2</sup>

The foregoing comprises the chief points in Mill's theory of value and distribution. Aside from exposition and illustration, he adds little to the framework of economic theory. His treatment of value is far in advance of Ricardo's, however, and his discussion of the relation of wages to profits, while weak, is also an improvement.

*Consumption and Production.*—On the relation of consumption to production, there was much confusion in the

<sup>1</sup> Bk. III, Chap. IV, § 2.

<sup>2</sup> Böhm-Bawerk is astray in stating that Mill gives three inconsistent answers to the question, “whence comes profit?” (*Capital and Interest*, Smart's translation, p. 408.) Böhm-Bawerk fails to distinguish between possibility and necessity. Mill would not have thought of calling his admission of productivity to capital a “theory.” Productivity, like utility in value, makes a return possible; but what “determines”? This was the question. The other was assumed. Mill consistently holds that the interest element in “gross profits” is payment for cost of abstinence. This makes a certain payment *necessary*. As to Böhm-Bawerk's discovery of an exploitation theory in Mill, it is illusory. He does not note the distinction between replacement and reward. As the result of a round of production (Mill's statement in this passage is incomplete in imputing production to labor alone) the advances of the capitalist are more than replaced, thus making possible a reward for abstinence. On this point see Bk. II, Chap. II, § 1.

Classical economics, and Mill was no exception to the rule. He denied a distinct place to consumption, and gave no book or chapter to the subject. The idea of utility, which forms the heart of the recent theory of consumption and value, he was content to leave with a sweeping general recognition that it was essential to exchange value. It is in connection with his treatment of capital and the wages fund that the confusion just referred to is most apparent; for here Mill attempts to prove the "theorem"<sup>1</sup> that "demand for commodities does not in any manner constitute a demand for labour."<sup>2</sup> His idea at this point is that the demand for labor is constituted by capital — the wages fund — and that a change in consumption only modifies the direction of this already existing demand; and through several pages, he struggles and twists and turns in the vain effort to disprove the simple fact that wants form the mainspring of economics and that the intensity and variety of consumers' demands acts effectively upon production and wages.<sup>3</sup> In fact, the payment of wages itself may be regarded as buying the utilities produced in part, at least, by labor.

In a notable chapter on Excess of Supply which appears in his book on Exchange, Mill expounds some other phases of the relation of consumption to production which he had pointed out in his *Essays*. He argues that, contrary to the belief of Malthus, Chalmers, and Sismondi, a general oversupply or glut is impossible. Partial gluts exist, and may temporarily become general; but are then not due to oversupply, but to an excess of speculation leading to a collapse of credit. In this he follows Say and his father, James Mill; but his development of the doctrine is an addition to the Ricardian scheme.

*International Trade.* — Another contribution of Mill's

<sup>1</sup> "Truth," before 3d ed.

<sup>2</sup> *Principles*, Bk. I, Chap. V, § 9.

<sup>3</sup> But Mill himself says (Bk. I, Chap. X, § 1) that production is "stimulated not only by the desire of the producers to augment their means of consumption, but by the increasing number of the consumers." It appears to be a mistaken idea of capital, its importance and relation to wages, that led him into error.

was his development of the Ricardian theory of international trade, and especially its value aspect.<sup>1</sup> Following Ricardo, his conclusion was that it is not difference in absolute costs of production, but in comparative costs, which determines international exchange. If English cloth and corn both cost 150 days' labor, and Polish cloth and corn both cost 100 days' labor, there will be no exchange; but if England's corn cost 200 days' labor, it will pay her to buy that commodity from Poland.

All this was substantially Ricardo's doctrine. But Mill went farther than his predecessor in reasoning that the law that permanent value is determined by cost of production does not hold for foreign commodities. Capital does not move readily from one nation to another; but may remain in a country having no advantages in production, and cause foreign trade to exist. The value of foreign commodities depends rather upon the cost of producing the goods exchanged for them, that is, upon demand.<sup>2</sup> In other words, international values obey a law of "equation of international demand": "There is some proportion at which the demand of the two countries for each other's products will exactly correspond; so that the thing supplied . . . will be completely paid for, and no more. . . ." <sup>3</sup> "Supply and demand are," in this case, "but another expression for reciprocal demand."

In the third edition of the *Principles*, Mill comes to the conclusion that his theory is incomplete, in that the equation of international exchange might have its conditions fulfilled by many different rates of exchange. The rate at which international values become adjusted remained indeterminate in his reciprocal demand theory. To supply the deficiency,

<sup>1</sup> This was chiefly done in the first of his *Essays on Some Unsettled Questions of Political Economy* (published 1844), but further contributions were made in the third edition of the *Principles* (1852). Mill's chief dogmatic contributions appear in these essays. The subject is treated in Bk. III, Chaps. XVII and XVIII, of the *Principles*.

<sup>2</sup> Mill here means, not entrepreneurs' outlays, but real costs.

<sup>3</sup> Bk. III, Chap. XVIII, § 5.



he concludes that it is necessary to take into consideration supply conditions, or, as he puts it, "the extent of the means of supplying that demand which are set at liberty in each country by the change in the direction of its industry." After some floundering, we are given as a final result the statement that the improvement in his theory "does not seem to make any very material difference in the practical result"!

In criticism of Mill's idea of international value, one notes that he is wrong in believing that, in any ultimate sense, the cost of production in the other country does not enter — as he dimly perceived by the time of his third edition. If the cost of the things exported be taken to enter, the question remains, "what determines *how much* must be exported?" As elsewhere, Mill here shows the undigested character of his theory as a whole. He does not bring his reasoning sufficiently into relation with his general theory of value. He makes a difference in degree appear as though it were one in kind.

Mill points out admirably the various advantages flowing from an extended international trade, the saving in prices to consumers being the great point. Accordingly, certain "vulgar" Mercantilistic notions, namely that a market for surplus products exported is the benefit, and that the national gain from commerce comes in the shape of profits to merchants, are disposed of. In this connection Adam Smith is criticized as not being entirely free from error.

By introducing the law of supply and demand into the field of international values, Mill furnished ground for new protectionist arguments, and he himself pointed out that taxes on imports and exports might be so adjusted as to force the former to bear them at least in part. Mill, however, was far from being himself an advocate of protection.

*The Influence of Progress on Distribution in Dynamic Society.* — In Book IV Mill treats of the Dynamics of Distribution; but he contributes little to Ricardo's ideas, so far as economic principles are concerned. It is here that he

most plainly shows the influence of Comte. After describing the elements of industrial progress, invention, security, business capacity, united action, and other factors which give man greater control over nature, he proceeds to show that prices of agricultural produce tend to rise, while a tendency to perpetual increase of the productive power of labor in manufacture causes manufactured articles to fall in price. The rent of land increases; money wages rise; the rate of profits falls. ✓

In spite of industrial progress, the increase of laborers is ordinarily such that a greater population has been enabled to live the same life of drudgery and imprisonment. "Only when, in addition to just institutions, the increase of mankind shall be under the deliberate guidance of a judicious foresight, can the conquests made from the powers of nature . . . become the common property of the species. . . ." <sup>1</sup>

In the last chapter in Book IV, "On the Probable Futurity of the Laboring Classes," he wishes to fix attention upon improvement in distribution and a larger remuneration of labor as the desiderata.<sup>2</sup> These ends may be achieved by a voluntary control of population arising with better education and the opening of employment to women, and by "a more and more complete realization of the ends which Socialism aims at, not neglecting its means so far as they can be employed with advantage."<sup>3</sup> He advocates "organization of industry" along the lines of LeClaire's profit-sharing plan.

Mill held that, ultimately, in spite of unlimited progress in the arts, a stationary state must be reached. In such a state increase in material production and in population would

<sup>1</sup> Bk. IV, Chap. VI, last paragraph.

<sup>2</sup> It is to be remembered that this chapter was largely affected by his wife and by his later interest in radical social reform. On the whole, its tone is very different from the main body of the work, which was drawn from Ricardian thought, somewhat influenced by Comte. It might almost be regarded as a sort of appendix inserted in his hastily written volume.

<sup>3</sup> § 5.

be at a stand. Another result would be a minimum rate of profits; and one of the most interesting points in the *Principles* is the discussion of the "tendency of profits to a minimum."

Why? What minimum? When? one asks. Mill argues that, were it not for the opening of new outlets, the expansion of capital which accompanies the progressive state would soon reach a limit, and capital receive the rate which would be the lowest that would induce people to accumulate savings and employ them productively. Two forces cause this expansion: a diminution of risk, and increase in providence. Accordingly, "when a country has long possessed a large production, and a large net income to make savings from, . . . it is one of the characteristics of such a country that the rate of profit is habitually within, as it were, a hand's breadth of the minimum."<sup>1</sup>

But, so far, this idea of a stationary state and minimum profits might have come from the *Wealth of Nations*. Mill's reasoning is not based on a mere competition among capitals, however, but on Ricardian ground. As capital increases, labor would or would not increase. If it did, poorer investments of agricultural capital would become necessary; the price of subsistence would rise; so with money wages; and, as a result, the rate of profits would fall. If population did not increase, there would be a greater capital to divide among laborers, and wages would rise, with the same result.

This last conclusion is based upon the assumption that although "capital" increases, "there would not be any increase of the produce," — an assumption possible only if by increase in capital is meant wages-fund capital in the shape of subsistence. This assumption appears quite unreasonable when Mill's own emphasis of invention and "comity of action" are recalled.

**Mill on the "Social Question."** — A point has now been reached at which Mill's views on what may be called the Social Problem may well be discussed.<sup>2</sup>

<sup>1</sup> Bk. IV, Chap. IV, § 4. Mill excepts countries having large reserves of land.

<sup>2</sup> Lange, *J. S. Mill's Ansichten über die sociale Frage*.

Two questions are to be answered. What is the problem contained in the Social Question? What is the office of government in respect to its solution? This problem, perhaps the weightiest of our time, is also an important one in connection with political economy. But it is the same problem as that of utilitarianism. Without understanding Mill's utilitarian principles, it is quite impossible to comprehend his political economy. In his utilitarianism alone is unity to be found in Mill, a unity of purpose.

What is, then, the problem of utilitarianism? It is to increase the entire sum total of human happiness. Happiness, in the best utilitarianism, includes all elements of well-being: the greatest amount of material wealth, still more of physical, spiritual, and moral welfare, associated with the least possible suffering, — the same problem which confronts us in the social question. That does not mean either the happiness of laborers alone or of the higher classes alone. If a renunciation of pleasure on the part of one class brings with it an increase in the total amount of happiness, this renunciation is justified, and ultimately so, even if it is a compulsory renunciation. Not the present alone, however, but, so far as we can judge beforehand, the entire future, is to be taken into consideration. If it is proved, or if it is probable, that private property will in the end contribute to the happiness of mankind, this institution is to be maintained on that account.

This seems to be Mill's belief, or rather it is the belief which he expresses in his political economy. As already noticed, Mill's belief underwent a change in after life; and to make the matter of his final opinions still more uncertain, it is mentioned in one place in his *Autobiography*, that he did not always speak out his whole mind, but only said what he thought the public could bear. The passage referred to is this: "In the 'Principles of Political Economy' these opinions (on Socialism) were promulgated, less clearly and fully in the first edition, rather more so in the second, quite unequivocally in the third. The difference arose partly from

the change of times, the first edition having been written and sent to press before the French Revolution of 1848, after which the public mind became more open to the reception of novelties in opinion, and doctrines appeared moderate which would have been thought very startling a short time before. In the first edition the difficulties of Socialism were stated so strongly that the tone was on the whole that of opposition to it. In the year or two which followed, much time was given to the study of the best socialistic writers on the Continent, and to meditation and discussion on the whole range of topics involved in the controversy; and the result was that most of what had been written on the subject in the first edition was cancelled, and replaced by arguments and reflections which represent a more advanced opinion." Mill's final judgment with regard to Socialism appears to be that, however valuable as an ideal and even as a prophecy of ultimate possibilities, it "is not available as a present resource, since it requires from those who are to carry on the new order of things qualities both moral and intellectual, which require to be tested in all, and to be created in most."<sup>1</sup>

As already indicated, the whole question of private property, according to Mill, is at bottom one of utility. If Communism could be shown to minister to the happiness of society as a whole better than the system of private property now in vogue, it ought to be adopted. Which system carries with it the greater amount of happiness? The answer to this question is the solution of the problem. To be considered are historical experiences, all motives which have influenced and which might influence men under different social systems, all effects of society on the individual, of the individual on society, and a host of facts and forces. The calculation of probabilities is always difficult, but nowhere more so than in this case.

Now in the discussion of the social question the theory of population plays an important rôle, and a pause must be

<sup>1</sup> Rough draft of projected work on Socialism published in *Fortnightly Review*, 1879.

made here to consider Mill's position in regard to Malthusianism.

Mill accepts the doctrine of Malthus substantially as he found it taught in the writings of the latter. He agrees with Malthus in the doctrine of preventive and positive checks to population, but goes farther than Malthus did in the advocacy of preventive checks. Indeed, Mill gave a larger place to the principle of population than any other economist of his day. This fact is partly to be explained by Mill's strong feeling that women were abused under the existing system. He dwells particularly upon the sin of calling human beings into the world without having the means to support them. He wishes to strengthen the feeling of responsibility in parents and to spread among the people an understanding of the consequences of overpopulation. "Poverty, like most social evils," says he, "exists because men follow their brute instincts, without due consideration. But society is possible precisely because man is not necessarily a brute."

A little farther on he makes use of this strong language, in which he would probably find few to agree with him. "Little improvement can be expected in morality, until the producing of large families is regarded with the same feelings as drunkenness or any other physical excess. But while the aristocracy and clergy are foremost to set the example of this kind of incontinence, what can be expected from the poor? . . . One would imagine that children rained down on married people direct from heaven; that it was really, as the common phrases have it, God's will and not their own, which decided the number of their offspring."<sup>1</sup>

It is, then, clear that above all things legislation must not weaken the feeling of responsibility in begetting children, but must strengthen it. In connection herewith Mill explains the ground of his objection to a legal minimum of wages. It would remove all the barriers which now oppose overpopulation; until finally this world with its human race

<sup>1</sup> Bk. II, Chap. XIII, § 1.

would resemble a great ant-hill or a beaver colony. Such an interference of the state would, therefore, be productive of harm only.

It must not be imagined that Mill had *a priori* objection to such interference of government. If the matter concerned the present generation only, he maintains that it would be possible to employ all and to establish a minimum of wages. "Society mainly consists," he says, "of those who live by bodily labor, and if society, that is, if the laborers" (is this an identification of laborers and society?) "lend their physical force to protect individuals in the enjoyment of superfluities, they are entitled to do so, and have always done so, with the reservation of a power to tax those superfluities for purposes of public utility; among which purposes the subsistence of the people is the foremost. Since no one is responsible for having been born, no pecuniary sacrifice is too great to be made by those who have more than enough, for the purpose of securing enough for all persons already in existence. But it is another thing altogether, when those who have produced and accumulated are called upon to abstain from consuming, until they have given food and clothing, not only to all who now exist, but to all whom these or their descendants may think fit to call into existence." That would, according to Mill, as already stated, reduce us to the condition of ants in an ant-hill.

But the state has by no means solved the social problem, when it has found means to prevent starvation. A rise of wages is not occasioned thereby, nor a fall of wages prevented. The purpose aimed at is higher wages, since, according to Mill, the present condition of affairs is intolerable.

Passages have been quoted indicating that Mill would prefer Communism to an unimproved continuance of our present system. But the choice does not lie between the continuance of our present system without improvement and Communism, inasmuch as it is possible to better the actual condition of things. The first measure to be introduced is universal education. The laborers lack the means and the

will to provide for the education of their class; the state must care for the schools. The instruction provided by the state should be thoroughly practical in its character, aiming to develop sound common sense, good judgment; an understanding of surrounding circumstances.

Besides schools, a participation in political affairs is an important and necessary means of educating the people. Every adult should have the right of suffrage under the sole condition of demonstrating that he has improved the advantages of education offered him. Taking an active part in politics is the first thing in modern times which accustoms the mind to more extended interests and views than those merely personal, the first step taken outside of individual and family selfishness.<sup>1</sup>

Among the poorer, as among the higher, classes, the conception of a proper standard of life would be formed and the increase of population would be limited thereby. Besides, when public opinion was once far enough advanced to allow it, legislation could make it a legal offense for one to beget children without having the means to support them.<sup>2</sup> But Mill thinks that such a law would be unnecessary, if only women were emancipated "so that they should not depend for their living upon the exercise of a single physical function." Becoming more independent, they would not submit to the burden of large families.<sup>3</sup>

At least two measures are suggested by which the government may permanently improve the condition of laborers: by extensive colonization according to Wakefield's system:<sup>4</sup>

<sup>1</sup> *Dissertations and Discussions*, Vol. III, "Thoughts on Parliamentary Reform."

The German economist, J. H. von Thünen, demanded universal education as essential to the economic progress of the labor class much earlier than Mill, but was oversanguine as to the possibility of truly educating people in poverty. *Der isolirte Staat in Beziehung auf Landwirthschaft und Nationalökonomie*, II Theil, I Abtheilung, "Ueber das Loos der Arbeiter, ein Traum ernster Inhalts," S. 41 u. s. w.

<sup>2</sup> *Principles*, Bk. II, Chap. III, § 2.

<sup>3</sup> *Dissertations and Discussions*, Vol. II, pp. 411-449; "Enfranchisement of Women."

<sup>4</sup> E.g. Wakefield, *View of the Art of Colonization*, 1849. Proceeding from the idea that the highest productiveness of industry depends on a proper proportion of labor



and by the sale of public land to the industrious poor, thus forming a class of small proprietors. The laws, too, ought to favor associations of laborers, coöperative undertakings, and voluntary communistic experiments.

Mill also recommended various measures to encourage improvements on land, small holdings, and the cultivation of waste lands. He thought that it might be advisable for the state itself to own land and lease it to coöperative agricultural associations, and, in small portions, as to farmers.

The fact that land is limited both in quantity and quality gives government a function to exercise respecting it. The right of property, which one enjoys in the fruits of one's labor, exists only by support of the authority of society; and this support can be withdrawn. Now if the right of property in that which one has created is of this nature, how much more dependent must be the right of property in land, which nature, not man, created. Here private property is only justified if landlords make those improvements which benefit society.<sup>1</sup> The state should invariably reserve and exercise the right to interfere when the public good demands it. The single fact that the land supply is limited gives government this right, which it ought to have in case of all monopolies.<sup>2</sup>

**The Unearned Increment.** — Mill was the first to use the term "unearned advantage"<sup>3</sup> in connection with land, a term since become so significant as "unearned increment." The basis for the idea is laid by Smith and Ricardo in their treatment of taxes on rent, but they do not advocate any absorption of economic rent as an unearned increment. Mill favored a periodical valuation of land by the government,

to land, Wakefield proposed that the government reserve unappropriated lands in the colonies, putting a higher price upon them than prevailed in the market, so as to prevent too hasty and extensive acquisitions. The proceeds were to be used for assisting the emigration of laborers to the colonies.

<sup>1</sup> *Principles*, Bk. II, Chap. II, § 6; *Dissertations and Discussions*, Vol. IV, "Explanatory Statement of the Programme of the Land Tenure Reform Association."

<sup>2</sup> *Dissertations and Discussions*, Vol. IV, "The Right of Property in Land."

<sup>3</sup> First used in third edition (1852); "unearned appendage," "increment of rent," in earlier editions.

with the object of enabling it to take over the difference in value, — the “spontaneous increase” which had accrued to rent.<sup>1</sup> He assumed that there would be a rise in value, due to social forces, not to improvements by landlords.

The foregoing account of some of Mill’s views as to private property and the social question are those found in his *Principles of Political Economy*, or earlier essays. Mill later avowed himself a Socialist<sup>2</sup> in a qualified and conservative sense of the term. While he looked forward to a time when individual liberty might be combined with common ownership of raw materials and equal participation in the “benefits of combined labor,” he repudiated that tyranny of society over the individual which Socialistic systems were “supposed to involve.”

**Governmental Interference; Laissez Faire.** — Thus far the interference of government in economic affairs has been but incidentally mentioned. But Mill’s statement of the “rights” of government and individuals and the limitations upon them has become a classic.<sup>3</sup> Government interference should be limited by a general right of citizens to their individuality, in so far as such a right is not injurious to others: if I do not injure my fellows, I may be or think as I choose. And a point greatly emphasized is that a large degree of individual initiative is desirable as an education.<sup>4</sup> Other points are that division of labor may be restricted through the inability of the government to do all things, there being limitations to its activity which do not obtain in the case of its individual members. This, however, might be obviated by greater division in administrative function. Private activity is generally better and cheaper, as is shown by the

<sup>1</sup> *Principles*, Bk. V, Chap. II, § 5; *Dissertations and Discussions*, Vol. IV, “Land Tenure.”

<sup>2</sup> *Autobiography*, pp. 230–234.

<sup>3</sup> *Principles*, Bk. V, Chap. XI.

<sup>4</sup> It is to be noted, however, that this point may have an opposite bearing in connection with other points. For example, an argument for municipal ownership is that the people would take interest in municipal affairs, economic and otherwise.

fact that the government is seldom able to compete with private individuals. An objection to all acts of governmental interference lies in the increased influence thus obtained by the state. This is always dangerous, but nowhere more so than in a democracy. Individuality, a rich diversity of human development, is a source of all progress, and should be jealously defended.<sup>1</sup>

"*Laissez-faire*, in short, should be the general practice; every departure from it, unless required by some great good, is a certain evil."

But Mill allows a great place for government activity. Utility is the only test: if the greatest good of the greatest number is thereby conserved, let the government step in. There are two great classes of interference, according to method: "Authoritative," in which the government says, "do this," or "do not do that"; "Non-authoritative," or optional, as when the government merely spreads information, establishes models, and the like. The burden of proof of those advocating the former is very heavy; the latter is less open to objection.

More specifically Mill would permit government action in cases where the consumers' interests demand, they being unable to help themselves. Here the competition of the market does not apply. The matter of schools, for instance, cannot be left to the judgment of individuals. In the interest of the incompetent, as the insane; of those under a personal contract in perpetuity, as married women; and of those who have but an indirect control over their property, as investors in joint stock companies, governments may properly interfere. Similarly, where people are acting for others and are not properly guided by self-interest, as in the administration of charity and in such public service as erecting lighthouses or conducting scientific experiments, there is room for public activity.

In the foregoing cases Mill is substantially in accord with Adam Smith,<sup>2</sup> except that he gives a much broader appli-

<sup>1</sup> *Principles*, Bk. V, Chap. XI, § 3; *On Liberty*, Chap. III.

<sup>2</sup> Cf. above, pp. 213 f.

cation to the principle of interference in behalf of the consumer, as such. But he goes much further when he says: "There are matters in which the interference of law is required, not to overrule the judgment of individuals respecting their own interest, but to give effect to that judgment; they being unable to give effect to it except by concert, which concert again cannot be effectual unless it receives validity and sanction from the law."<sup>1</sup> Under this principle Mill would, under certain conditions, justify such measures as the legal establishment of a nine-hour day, and public administration of colonization schemes.

Comparing these two great English economists, one conclusion is that the difference in their opinions is associated with the difference in the extent to which utility was given rein: Smith's belief in natural law forbade the immediate application of the principle of utility, and made his application of *laissez faire* more absolute than Mill's. Mill was not committed to individualism as an absolute generalization. Doubtless this difference was in no small measure due to the industrial evolution that had intervened; just as Mill could say that his argument did not apply to private corporations, though now they are the dominant form of business organization, so by Mill's day what had seemed to Smith the exception had in some cases become the rule.

**Philosophy and Method.**—In studying Adam Smith it was found that though there was a utilitarian element in his political economy, this was largely concealed by the veil, after all transparent, of natural right. In Mill this veil is dropped altogether, and utilitarianism comes forward openly as such. If any course of action has utility, nothing further is to be said against it. But perhaps enough has been written already on this matter.

Mill distinguishes between different kinds of utility, that is to say happiness, and assigns a far higher rank to that which is useful to the mind than that which benefits only the animal body. One must not, therefore, accuse Mill of

<sup>1</sup> *Principles*, Bk. V, Chap. XI, § 12.

materialism or of selfish principles because he professed himself a utilitarian.

In fact Mill—the Mill of later years, at least—may be classed as an idealist. Here his inconsistency, resulting from change and growth, makes it difficult to speak. His economics proper, especially his statics, based as it was upon Ricardo, is essentially materialistic. Man is regarded as the creature of physical laws. Utility is a material concept. But where he preaches, where he discusses progress, where he inconsistently with the Benthamite utilitarianism distinguishes different grades of happiness, there he is the idealist. There the influence of Comte's philosophy, of the Socialists, and his wife, modify the Ricardian foundation. Man dominates nature. Utility includes happiness of a high order.

( It is one aspect of Mill's idealism that shows itself in his differentiation of the laws of Production from those of Distribution.<sup>1</sup> In the former, nature is supreme and her action is to be accepted without question. Her facts are physical truths. Man merely moves things so that they will be acted upon by her forces. But in Distribution human institutions dominate. Here laws are not unalterable; nor the things that are, the best that can be. Led by his idealism, Mill made this addition to the simpler Ricardian creed, the "primitive economy."<sup>2</sup>

As is usually the case with idealists, Mill was essentially an optimist, and among his last words we find this statement: "The evils and injustices suffered under the present system are great, but they are not increasing; on the contrary, the general tendency is toward their slow diminution."

In these facts is in part to be seen, no doubt, the working of the changed conditions mentioned in the introduction to this chapter. Many great inventions made social readjustments necessary. The growth of population and the rise of the Malthusian idea suggested the need for and possibility

<sup>1</sup> Patten, *Dynamic Economics*, p. 21.

<sup>2</sup> *Principles*, Bk. II, Chap. I, § 1; Preliminary Remarks, last four paragraphs.

of human control and improvement. Mill first puts social institutions along with physical laws as a controlling force, and then argues for a progress, not merely quantitative, but qualitative, through social action.

This invocation of social activity is an ear-mark of Idealism.

Mill, however, draws too sharp a distinction between the laws of Production and Distribution, nor is he able to carry it out consistently.<sup>1</sup> The pillars or framework of his economic theory remain materialistic. "A primitive man" moved by self-interest "is put into the mechanism of modern society." In thus asking a primitive man — one actuated by self-interest and molded by physical environment — to progress along lofty social lines, he again shows the same lack of harmony or fusion in the elements of his philosophy already observed.

What position does Mill take as regards the new ordering of economic forces? On the one hand a strong adherence to the old *laissez-faire* principles is found; on the other, a recognition of the evils developed by a later time, and a decisive declaration that individualistic egoism is not sufficient to work a cure. In fact, at points an approach to the opposite of *laissez faire*, Socialism, appears in those parts of his work which discuss the labor question. "Extremes meet." From either standpoint Mill's system appears inconsistent. Notwithstanding the admirable acuteness and clearness of his understanding, he appears occasionally to become confused between the old and the new times. His system may be compared to a Janus head, of which the one face looks back into the past, the other forward into the future. Or he may be likened to a man standing at a place where two roads part without being able to decide which one to take.

Mill's method is to be criticized on lines similar to those followed in examining his philosophy. In his earlier work he regarded the *a priori* and deductive method as the only

<sup>1</sup> See, e.g., Bonar, *Philosophy and Political Economy*, p. 252.

fruitful one for a study of first causes. His *Unsettled Questions* shows a belief in this method, not only for Political Economy, but for the broader Social Science. He began his *System of Logic* with the idea, more or less conscious, of establishing the reign of law in society as in the physical world, and showing that the *a priori* methods of Ricardo and James Mill were the same as those used in the "natural sciences."<sup>1</sup>

Even while at work on the *Logic*, he was corresponding with Comte,<sup>2</sup> and the latter's influence, together with that of Macaulay and a study of chemistry, led him to modify his belief. For social science, he was led to believe that the old method was dangerous, and to advocate a combination of induction and deduction which he called the Concrete Deductive Method. This method, it will be observed, would readily appeal to one grounded in the Ricardian law of Rent, which is "a plain induction, followed by a bold deduction with plenty of verifications."

This much may be said: Mill went further than any great English economist preceding him in expressly using perfect competition as a hypothetical assumption made only for scientific purposes, and in pointing out exceptions and limitations.

The framework and foundation of the *Political Economy*, however, remain *a priori*. He sets out with the same suppositions as Adam Smith and Ricardo, namely, that man is governed by self-interest in economic affairs, that the individual pursuit of selfish ends promotes the general welfare, that profits and wages are equalized, and that taxation is shifted about in such manner as to make them so. Only in distinguishing the laws of Distribution from those of Production he breaks from the earlier idea, removing, as the distinction does, a part of economics from the dominance of physical causes.

<sup>1</sup> See Patten, *Development of English Thought*.

<sup>2</sup> See Leroux, *Lettres d'Aug. Comte à J. S. Mill*.

**V. OPPONENTS AND LEADING CRITICS**  
*(Resumed)*



**1. THE PHILOSOPHICAL AND ETHICAL SYSTEM**  
**(*Resumed*)**

## CHAPTER XXIII

### THE FOUNDERS OF "SCIENTIFIC" SOCIALISM IN GERMANY<sup>1</sup>

THE earlier French and English Socialism down to 1848 was largely utopian and idealistic. Down to 1848, too, it was dominated by a bourgeois or middle-class spirit, and was not of and for the wage-earning class; though with Louis Blanc and Proudhon the transition to a proletarian spirit, opposing labor to capital, is manifest. Moreover, none of the writers who have been discussed can be called "State Socialists," that is, Socialists who accept existing governments as the agency for carrying out their programs. True, Louis Blanc and Proudhon relied to some extent upon the state; but the former was half an associationist, or group Socialist, and the latter was an anarchist in his way. We are now to pass to Germany and the purely proletarian Socialism of the second half of the nineteenth century; a Socialism which ridicules the utopian ideals of the earlier group and prides itself upon its "scientific" realism, though it draws largely from its French and English predecessors. And first it is logical to take up the thought of a group of thinkers commonly known as "State Socialists," chief of whom are Rodbertus and Lassalle.

As just intimated, they accept the state as the agency for applying their theories and seek to enlarge its economic functions accordingly. Properly speaking, a "State Social-

<sup>1</sup> See the references under Chap. XXI; and *Handwörterbuch d. Staatswissenschaft*, articles on "Socialism," "Rodbertus," and "Marx"; Flint, *Socialism*; Böhm-Bawerk, *Capital and Interest*, Bk. VI, Chaps. II and III (English translation by Smart, pp. 328-392); also *Karl Marx and the Close of his System* (English translation, London, 1898). Gonner, *The Social Philosophy of Rodbertus*; Masaryk, *Die philosophischen und soziologischen Grundlagen des Marxismus*.

ist," then, is one who advocates a radical scheme of social reform to be carried out by government. They are, therefore, generally nationalists, and stand opposed to the cosmopolitan, international, or universal Socialism of Marx, on the one hand, and to the associationist or group Socialism of Owen and Fourier, and Louis Blanc, on the other.

**1. State Socialism: Rodbertus and Lassalle.** — (a) *Rodbertus*. — Karl Rodbertus (1805–1875) has probably exerted more direct influence upon economic thought than any other socialistic writer, unless it be Marx. This is especially true in Germany, where such men as Wagner admit his influence; but it may be seen even in the thought of American economists. His chief economic writings are: *Zur Erkenntniss unserer staatswissenschaftlichen Zustände* (1842) (Our Economic Condition), which contains his leading views; *Sociale Briefe an von Kirchman* (1850–1851) (Social Letters); *Zur Beleuchtung der Sociale Frage* (1875) (Light upon the Social Question); and *Der Normal Arbeitstag* (1871) (The Normal Labor Day). The last essay contains his plans for immediate reform.

Rodbertus' economic thought may be analyzed as proceeding from two main ideas: a labor theory of productivity, and a belief in a decreasing wage share. The second idea is connected with the so-called iron law of wages, that is, a subsistence theory. Putting these two main ideas together, he emphasizes the problem of distributive justice and evolves a notable theory of crises.

In the first place, then, he believed that labor produces all economic goods, — either directly, or indirectly through tools and machinery.<sup>1</sup> Those goods only are economic which are produced by labor, others being "natural." More than that, manual labor is meant. Intellectual labor is very important; but it is not costly, and is to be regarded as a free gift of nature, like land. It will be observed that this does not necessarily mean a labor theory of value: Rodbertus says labor creates *products*; he does not say values. Economic

<sup>1</sup> See *Zur Erkenntniss*, pp. 7 ff.; *Schriften*, II, pp. 105 f.

goods, however, all have value, and he thought this labor was the best measure of value. Simply, he does not say that labor actually does *determine* value. But he believed that labor *ought* to be the basis of value, and that it would be so in a properly organized society,—one in which production would correspond to social needs.

The "law" of a decreasing wage share (*Gesetz der fallenden Lohnquote*) was formulated by Rodbertus as early as 1837.<sup>1</sup> By it he meant that the proportion of the national income received by laborers continually decreases. The total amount paid in wages may increase, but rent and interest take an increasing percentage of the aggregate income. In formulating this law Rodbertus was probably influenced by Sismondi, and it appears to be a simple deduction from the subsistence theory of wages of the Classical economists, narrowly, and erroneously, interpreted. If production is continually increasing, while labor as a commodity merely gets enough to cover cost, its proportional share decreases.

The national income, consisting of goods that are of direct importance to life, is divided by Rodbertus into two parts or shares: wages and rent. Rent, in its turn, falls into two parts: land rent and capital rent. Its existence is due to the economic fact that there is a surplus produced by laborers over their subsistence, and to the juristic fact that private property in land and capital enables the owners to exploit labor and retain that surplus. In these ideas, again, Rodbertus is clearly following the thought of Sismondi, Proudhon, and the Saint-Simonians.

From the two main ideas thus briefly sketched, Rodbertus concluded that the great mass of mankind is unjustly shut out from a participation in the income which it creates, a condition that is inimical to culture. Indeed, his great service is to have brought out sharply the question of distributive justice. With more economic learning and statistical data than his predecessors, coupled with a forceful presentation of the issue, he drove home the fact that there is a

<sup>1</sup> *Die Forderungen der arbeitenden Klassen* (1837); found in *zur Beleuchtung*.

problem in the poverty of the masses which partly, at least, concerns economics as a science.

Rodbertus' famous theory of crises is also derived from his theory of a decreasing wage share. Very briefly stated, it is that, as the great mass of wage earners have a diminished purchasing power, consumption fails to keep pace with production. A contraction of production ensues, with unemployment and a further decrease in purchasing power, leading to an intensification of the crisis. The similarity of this idea to Sismondi's theory of overproduction will be observed, and it is open to the same criticism. Moreover, if we are to assume that an increase in labor's share, or wages, would remedy the matter, it appears that the validity of the theory depends on an assumption that capitalists in general are receiving more than a return necessary to secure the activity of their capital; otherwise wages could only be increased at the expense of capital and a consequent restriction of production. Thus the theory rests upon the exploitation idea.

Poverty and crises are to be done away with, and distributive justice attained by an ultimate socialization of property. This, however, should be an evolutionary process. History, Rodbertus thinks, shows three great stages. The earliest is the period of heathen antiquity, in which human beings are owned and labor is thus exploited by the rent receivers. In the second, or Christian-Germanic stage, land and capital are private property for the use of which the owners demand an unearned rent. This is the existing condition. In the future a Christian-Social stage is to come, in which land and capital will be nationalized and private property be allowed only according to service or desert. This stage might be expected in five centuries, perhaps. Although his "stages" do not exactly correspond to any historical periods and cannot be accepted in a rigid sense, Rodbertus deserves credit for careful historical study and for a broad conception of the relativity of social institutions. He was no mere radical revolutionary.

As to immediate and practical remedies Rodbertus chiefly proposed various regulations of the labor contract, with the idea of increasing labor's share in the national income. He advocated the legal establishment of a normal working day. Moreover, the determination of a normal amount of work to be performed by an average worker in a given time was favored by him. This average production would serve as a standard of value, according to which each laborer would be credited. Prices, too, would be fixed, and be measured in a labor currency in a manner quite similar to Owen's scheme. By such devices the transition to his third stage would be hastened.

Of course Rodbertus attacks Smith's system with its competitive basis. His most fundamental critical idea lies in the opposition of a social demand to the "effective demand" of the economists; or, just to put it in another way, he emphasizes utility rather than exchange value,—an idea in developing which Sismondi preceded him. Rodbertus, however, fits it into the garb of Socialism. The effective demand, he says, is a property demand. Property-owners determine production, directing it so as to secure the largest net profits rather than the largest amount of essentials. Luxuries are produced, while the most intense wants go unsatisfied.

Among other points, Rodbertus criticizes the Classicists on historical grounds for assuming the existence of an original state in which men were equal in property and political rights. History, he thought, always shows inequality and exploitation of the weak by the strong. And in a similar vein a distinction is drawn between capital as a logical functional concept and capital as an historical fact.

Naturally the wages-fund theory is rejected, as, according to his assumptions, Rodbertus could not believe that wages are paid out of capital.

Passing over his criticism of Bastiat's interest theory, this résumé of his chief economic criticisms may be concluded with a note concerning his theory of rent. Ricardo's doc-

trine he thinks is overturned by his fancied proof that rent would exist even if all land were equally productive; differences in productivity explain differences in rent, not the origin of rent.<sup>1</sup> His own theory, which is probably suggested by certain passages in the *Wealth of Nations*,<sup>2</sup> is a notable illustration of the inconsistencies which so abound in the strictly economic thought of Socialistic writers. Starting from the idea that the price of all products corresponds naturally to their labor cost, and that the price of manufactures and raw materials are thus on a similar basis, even though land ownership is a legal monopoly; he concludes that landowners get a larger return than capitalists, in that the latter must pay for raw materials, while land is a free gift of nature. Landowners, as such, having no expenses for raw material, secure a larger net return, which is land rent. Or to put it another way, land itself is the landowner's raw material, and he can normally demand enough for its use to cover the customary gain of the capital engaged in producing raw materials required in other industries. The whole idea reminds one of the Physiocrats' surplus and Smith's notion that in agriculture "nature" labors with man in a peculiar way, and rests upon the failure to see that in economic society land values are themselves capitalized.

But, one asks, what then of the differences among different manufacturing industries in this regard? Does the manufacturer of rails or girders secure a lower net return than the producer of iron and steel, just as the latter is assumed to secure less than the owner of the iron mine or land? Not if the labor cost theory is to be maintained, for this reasoning makes land ownership an element in value; yet this conclusion would follow from his rent theory. His rent theory is

<sup>1</sup> See *Beleuchtung*, pp. 170 f.

<sup>2</sup> Bk. I, Chap. VI, paragraphs 10 and 11. "In the price of flour or meal, we must add to the price of the corn, the profits of the miller, and the wages of his servants," etc. "In the price of linen we must add the wages of the flax dresser." "The capital which employs the weavers . . . must be greater than that which employs the spinners. . . ."

inconsistent with his theory of labor cost; and leads to conclusions that are contradicted by the facts of equalized "profits" in competitive industry.<sup>1</sup>

(b) *Lassalle*. — Ferdinand Lassalle (1825–1864) was the Louis Blanc of German Socialism. His chief work was that of the agitator and propagandist. He founded the Social Democratic Party. His thought needs no long consideration, for in its main outlines it was that of Louis Blanc, Rodbertus, and Marx.<sup>2</sup> Lassalle it was who made the phrase "iron law of wages" his own. Accepting the subsistence theory of wages, he taught that under the capitalistic system the position of labor is hopeless. Therefore capitalism must be abolished, and coöperative association be put in its place. "Productive association with state credit" was his scheme.<sup>3</sup> And the state was to guard the funds of the associations and maintain suitable rules.

The most notable points in Lassalle's writing are the brilliant way in which he seeks to drive home the significance of capitalism, and his theory of *Konjunktur*. Capital he takes broadly to be the name for a group of political, economic, and juristic conditions which are not absolute and permanent, but the result of an historical development. An examination of the existing economic order shows that its essential features are division of labor, production for a world market, competition, and the ownership of the instruments of labor by the capitalist class, which exploits wage earners by paying them according to the iron law of wages, pocketing the surplus. Capital, "the dead instrument of labor," has become the active agent, degrading the living laborer.<sup>4</sup>

In opposing individualism Lassalle was led to deny that the individual controls his own destiny. There is a large

<sup>1</sup> Cf. Lexis, "Zur Kritik der Rodbertischen Theorien," *Jahrb. f. Nat. ök.*, N. F., IX, 469; Oppenheimer, *Ricardo's Grundrententheorie*, pp. 38 f.

<sup>2</sup> *Das System der Erworbenen Rechte*, 1861.

*Workingmen's Programme*, 1862.

*Open Letter*, 1863.

*Bastiat-Schulze*, 1864.

<sup>3</sup> *Open Letter*, *passim*.

<sup>4</sup> *Bastiat-Schulze*, pp. 181 f.



element of chance, or conjuncture, he said, that dominates individual endeavor and makes control by society necessary. Wars, crises, etc., are of social origin and largely beyond the scope of individual action. It is therefore folly to rely upon individual initiative and self-interest as do the Classical economists.

**2. International Revolutionary Socialism: Karl Marx and Friedrich Engels.** — For a generation Karl Marx was the undisputed leader in Socialistic thought, and his chief work, *Das Kapital* (Capital), 1867, came to be called the Bible of the "scientific" Socialists.<sup>1</sup> If it is now true that its prestige has been somewhat shaken by "higher criticism," at the beginning of the twentieth century it was still the leading source from which the great mass of intelligent Socialists drew.

Born in 1818 at Trèves, Marx was, like Lassalle, a Jew. He studied philosophy and history at Bonn, and became intimately acquainted with Hegel's thought. He was also influenced by Lorenz von Stein in regarding the social movement as an evolution.<sup>2</sup> Marx became a radical editor, was driven from Germany to France and thence to Belgium, finally taking up his residence in London, where he lived until his death in 1883. The spirit of the generation in which Marx lived was largely his, and it has been well characterized as "the irreverent and revolutionary spirit of what was once known as Young Germany; the spirit of a race of disillusioned men, without belief in God or unsensuous good; a hypercritical, cynical, and often scurrilous

<sup>1</sup> Other works are: *Einleitung zur Kritik des Hegelschen Rechtsphilosophie* (1843) (Introduction to a Critique of Hegel's Philosophy of Rights), containing the germs of his materialistic conception of history; *Misère de la Philosophie* (1847) (The Poverty of Philosophy, a criticism of Proudhon); *Discours sur la question du libre échange* (1848) (Discourse upon the Question of Free Exchange); *Zur Kritik der Politischen Oekonomie* (1859) (A Contribution to the Critique of Political Economy). Only the first volume of *Capital* appeared in 1867. The two other volumes were brought out in 1885 and 1894, after Marx's death (1883), by his collaborator, Engels. Engels' chief work was *Herrn Eugen Dühring's Umwälzung der Wissenschaft*, 2d ed., 1886. The Communistic Manifesto of 1848 was the joint work of Marx and Engels.

<sup>2</sup> See below, p. 485.

spirit. In passing into its latest or Germanic stage, Socialism gained intellectually, but lost morally."<sup>1</sup>

With Marx Socialism took on a purely materialistic garb, and became international or cosmopolitan in its scope as contrasted with the national industrialism or associationism or State Socialism of his various predecessors. Marxianism is the classicism of Socialistic thought, abstract, deductive, cosmopolitan. Rodbertus was an idealist. So were the earlier French writers who clung to the institution and believed in the innate goodness of man. But Marx was in fierce revolt against institutions including the existing states, and was far from believing that good predominates in mankind. Accordingly he put Hegel's dialectic upon a materialistic basis, and made social evolution a matter of material and economic forces. To Marx "the ideal is nothing else than the material world reflected by the human mind."<sup>2</sup>


Indeed, one of the things ordinarily associated with the name of Marx is his materialistic interpretation of history, and especially his analysis of the existing capitalistic stage. These ideas, together with that of class struggle, are the essential basis of revolutionary international Socialism. Several others of the Socialists had analyzed the development of society into stages, with more or less elaboration of their material characteristics. It remained for Marx, however, to develop the idea that all social changes have their ultimate causes in the modes of production and exchange, or that economic factors dominate all history and determine social organization, classes, and class interests.<sup>3</sup> In the present stage of history, capital — which he, like Rodbertus, regards as an "historic concept" — stands opposed to labor, the latter being exploited. Here Marx presents an acute analysis

<sup>1</sup> Flint, *Socialism* (1895), pp. 136-137.

<sup>2</sup> *Capital*, preface to second edition.

<sup>3</sup> Friedrich Engels, Marx's collaborator, urges that Marx did not take such an extreme view; see his *Sozialistischer Akademiker* (1895). It is not unlikely that to say that Marx makes the economic factor the *sole* factor in historical development is going too far.

of industrial conditions, which has its value, even though largely vitiated by a warped point of view.



It is essential to understand his notion of capital, for it is not the ordinary one.<sup>1</sup> To Marx, circulation of commodities is the starting point of capital, and he dates the "modern" history of capital from the sixteenth century, when a world commerce arose. "As a matter of history, capital, as opposed to landed property, invariably takes the form of money; . . . the first form of appearance of capital is money." Then by purchasing labor power for less than it is worth and retaining the surplus, money is converted into capital. "By turning his money into commodities that serve as the material elements of a new product, and as factors in the labour-process, by incorporating living labour with their dead substance, the capitalist at the same time converts value, *i.e.* past, materialized and dead labour into capital, into value big with value, a live monster that is fruitful and multiplies,"—a "vampire" that sucks the blood of labor. Capital is wealth used to exploit labor.

Thus Marx's idea of capital as an "historic concept" is part and parcel of the idea of a surplus value that labor creates and capital appropriates. The idea of surplus value is his most famous contribution. It demands attention next.

In the first place it will be remembered that most of the earlier Socialists had the same general idea, and that the Englishman, Thompson, had a very definite one. Such originality, then, as Marx has, must lie in his formulation and attempt at proof.

This begins with his theory of value. Marx starts with an abstraction. Use value is distinguished from exchange value, or value, for short; and all that remains of commodities "if we abstract their use-value" is value. Marx thinks labor produces all value, capital being nothing but stolen labor; therefore this abstract value exists "only because human labor in the abstract" has been embodied in goods. Value is "a mere congelation of homogeneous

<sup>1</sup> See *Capital*, Vol. I, Part II, Chap. IV, and Part III, Chap. VII.

human labour"—"crystals" of a "social substance."<sup>1</sup> All this concerns the qualitative aspect of value, a phase which Marx thinks the economists had unduly neglected.

The value of a commodity being thus "abstracted" from all relation to its form or use, it remains to discuss its determination in exchange, or the quantitative aspect. *Assuming the existing social order*, Marx reduces value to socially necessary labor-time,—to the time spent by the average laborer under existing social conditions. If it requires  $x$  labor hours to make the linen and  $2x$  labor hours to make a coat, the coat has a value twice as great as that of the linen.

Marx criticizes economists for not analyzing the qualitative and quantitative aspects of labor as entering value, and for not reducing labor to abstract social labor.

It is obvious that certain difficulties are inherent in the attempt to reduce labor to an abstract fund, owing to the differing character and intensity of labor,—to say nothing of the differing utilities of products, which Marx "abstracts," although Aristotle had made them the very standard of value.<sup>2</sup> These difficulties Marx in part recognizes. He attempts to get around them, (1) by conceiving of all labor power and all values as funded into homogeneous social aggregates, divisible into equal units; (2) by limiting his conclusion to "normal conditions of production" and "the average degree of skill and intensity prevalent at the time."

Having thus defined value and based it upon labor time, Marx proceeds to argue that capitalists secure a surplus of value in hiring labor. In itself an old idea, Marx elaborates its argument somewhat. Assuming that the exchange value of a day's labor power is a certain sum, determined by the fact that the means of subsistence required for the day cost half a day's labor, he argues that this does not prevent his working a whole day, nor determine the value of the laborer's daily product. The capitalist, in short, buys of the laborer the "use-value" of a day's labor power for its ex-

<sup>1</sup> Vol. I, Chap. I.

<sup>2</sup> See above, p. 60.

change value or cost, and the difference is his surplus, or "profits."<sup>1</sup>

Criticism of the main points in Marx's economic theories must be adverse. To begin with, his underlying philosophy of history is indisputably one-sided. Too many things occur for reasons not entirely economic, or even not economic at all. The economic interpretation of history must be incomplete, but if such an interpretation is also materialistic, it is doubly limited. Marx was grossly materialistic in his economic thought, and herein lay his fundamental error. There is an element of truth in his position that economic forces are very important factors in shaping history. This it was well to emphasize. But others had done this, notably Comte; and Marx's countryman, Lorenz von Stein, may have given him some of his ideas.

His chief historical conclusion immediately concerns capital. One must feel that here as elsewhere his desire to prove surplus value and exploitation, rather than historical study, influenced him. To say that capital has not always existed where men use tools to aid in production is only possible when a peculiar and question-begging definition of capital is adopted.

Moreover, it is contrary to his own method of historical interpretation to overlook the social services and the economic function of the capitalist class. Its initiative was largely instrumental in overthrowing feudalism; its enterprise and management are of value to-day.

But the element in Marx's thought which gave his "scientific socialism" its peculiar form, and shaped the policies which he advocated, was his theory of value and the related doctrine of surplus value. There was no theory of value in the *Communist Manifesto*, — but neither was there a definite content given to the general idea of Socialism. Marxian socialists sought to remedy certain evils in a certain way. These evils center in exploitation; exploitation, in turn, consists in the appropriation of surplus value; and the con-

<sup>1</sup> See *Capital*, pp. 174-176.

cept of surplus value depends upon the theory of value. Other Socialists, as Proudhon, had other explanations. While Marx propounded his theory of value as a scientific explanation of how values are determined, his theory shaped his practical program: Marxian economics is vitally connected with Marxian Socialism. The economist's criticism of the Marxian theory of value, therefore, bears in an important way upon Marxian Socialism.

(1) That theory of value is unsound in the first place in its vicious abstraction of utility.<sup>1</sup> This unfits it for a general explanation of the source of value. Regardless of form or use, in Marx's scheme things would be valued according to abstract labor time. As a result of such a theory the free gifts of nature could have no value; and so with anything that has not cost labor. Marx here tries to meet the difficulty by drawing an inconsistent and illogical distinction between value and price, stating that such things may have a price but not a value! On the other hand there is this question: Are all things that have involved labor valuable? Marx admits that such things may not have value. He says that they must be socially useful to acquire exchange value. But where such is the case he seems arbitrarily to regard the *labor* involved as being useless, overlooking the fact that it is primarily the utility of the commodity that decides.

Marx again glides over the utility difficulty by assuming a "social process" by which labor is directed and equated, a process which, when it is analyzed, is seen to operate through utility. One cannot get away from the question, Why do men work? Why do they devote labor time to cotton rather than to linen?

(2) But in the second place, even assuming that cost alone can explain exchange value, it is not true that costs can all be reduced to labor. The claims of capital must be met even in a collective state, they being based primarily on

<sup>1</sup> In reality Marx scarcely deals with utility at all, his "use-value" appearing to be generally thought of as the material of the good and having merely the negative quality of providing a body for the abstract labor-time units.

the economics of the situation. Marx did not go back far enough here. His assumption of the sufficiency of his "historic concept" of capital was made to serve. If labor alone made the spindle, the machinery that, in turn, helped make it, and finally the metal and the mine appliances, how were these last made? The element of saving and waiting is there and it must be paid for, whether private ownership exists or not. Marx assumes that his surplus is produced by labor. This, however, cannot be proved; and unless it is, it does not necessarily indicate any exploitation of labor.

(3) The reasoning concerning abstract labor-power units breaks down before insuperable differences in the quality of labor.<sup>1</sup> We are virtually told that as entering value determination the labor of the artist may be equated with that of the hod-carrier by merely taking one day of the former's exertion to equal twenty or thirty of the latter's. As well think of an ounce of canvas from the masterpiece as equal to so many pounds of mortar! Labor is exerted on different planes. It can be reduced to a common basis and funded only by eliminating a large part of the laborers, or by performing the impossible feat of adding art or skill to brute force to get "congelations" and "crystals."

(4) Finally, the reasoning of Marx concerning "surplus value" fell before the same difficulty which caused Ricardo to qualify his labor-cost theory of value, namely the time element in capital. Marx assumed that the rate of surplus value always equals the rate of profits, an assumption which can only be true when the composition of the capital used in different industries is the same as to the proportion of fixed and circulating elements. He admitted that only "variable capital" yields "surplus value," for it alone employs labor. Therefore, while the absolute amount of "surplus value" increases with the amount of variable (circulating) capital, the *rate* of profit depends upon the total capital employed, and must vary with the proportion of circulating to fixed capital. Thus Marx's logical chain

<sup>1</sup> Cf. Adam Smith's idea of an average labor cost. Above, pp. 205 f.

is broken by the fact that profits and surplus value depend in part upon capital. In fact, the rate of profits (interest) tends to be equalized among different industries. In the face of these difficulties, Marx was compelled to resort to an explanation which was a confession of failure: His theory of value, he wrote in the third volume of *Capital*, was intended to explain only total value and proves only that the value of all goods combined must equal total labor time. Prices of particular goods, he admits, rise and fall not as a result of labor-time value changes, but from the effect of the credit system, competition, and so forth! In a word, like Ricardo, he was forced to admit that the time element (interest rate) is after all a factor in the determination of value.

The foregoing is but the barest sketch of the leading ideas in Marx's economic doctrines. Space forbids further discussion of the numerous merits and demerits of his thought.<sup>1</sup> Marx was a learned and ingenious writer, and possessed of a good deal of dialectical skill. But he was filled with a preconceived idea which led him into question-begging assumptions and one-sided analyses. He took certain ideas from Smith and Ricardo, for whom, of all economists, he had the most respect, and, robbing them of the qualifications made by those writers, applied them in an even more abstract way than they had done.

**3. Revisionists or Opportunists.** — Since the active days of Marx and Engels, another group of Socialists has arisen, which may be called opportunist or revisionist. Its members

<sup>1</sup> A sympathetic statement of his merits is the following: —

"In the combination of learning, philosophic acumen, and literary power, he is second to no economic thinker of the nineteenth century. He seems to have been master of the whole range of economic literature, and wielded it with a logical skill not less masterly. But his great strength lay in his knowledge of the technical and economic development of modern industry, and in his marvelous insight into the tendencies in social evolution determined by the technical and economic factors. Whether his theories in this department are right or wrong, they have suggested questions that will demand the attention of economic thinkers for a long time to come. It is in this department, and not in his theory of surplus value, that Marx's significance as a scientific economist is to be found." (Kirkup, *History of Socialism*, pp. 164-165.)



are not revolutionary, but "evolutionary." They await developments. Toward the doctrines of Marx they are more or less critical. Thus, in Germany, Bernstein criticizes the theory of surplus value, and denies that the condition of the laborers is going from bad to worse, or that capitalism<sup>1</sup> will necessarily collapse. And he is far less materialistic than Marx. Much the same may be said of Jaures in France. In England, Sidney Webb is the leading "Fabian" Socialist. The tendency is to reject both the materialistic interpretation of history and the theory of surplus value, while accepting the doctrines of class struggle, internationalism, and the socialization of the instruments of production.

*Philosophy and Socialism.*—Being one of the most sharply defined lines of development in economic thought, Socialism furnishes an interesting field for testing the relationship between metaphysics and economics, the general outlines of which have been sketched on pages 7 to 17.

It may be stated that not only was Socialism in its beginning idealistic, but that Socialism must be idealistic if it is to be logically consistent, and to build up strong system. In the first place, *as radicals* socialists believe in the power of human judgment to cope with physical facts: by "taking thought" man can sweep away the sufferings and evils of the existing order. And along with this belief there is generally found the assumption of the perfectability of man—avowed by Godwin and the early Utopists; tacitly assumed by all true socialists to-day. Like true radicals they do not count the cost,—which is to say, they do not admit the reality or the importance of opposing views,—and this is manifest in the socialists' schemes for directing industry according to political opinion of needs or according to someone's estimate of total utility. In this, they do not count the costs involved in uncertainty and lapse of time, which are the grounds for profits and interest in the existing social order, to say nothing of physical depreciation. This manifests idealism, in the broad sense in which the term is here used.

<sup>1</sup> *Die Voraussetzungen des Sozialismus* (American translation, New York, 1909).

In the second place, as a special kind of radical, socialists stand for *collective action*. In this connection we find the old ear-marks of idealism: the social-organism notion, and confidence in the power of the institution. From the St. Simonians who wrote "Humanity is a collective being which develops; that being has grown from generation to generation as an individual grows," to the Fabians who write, "Though the social organism has itself evolved from the union of individual men, the individual is now created by the social organism—and its persistence is accordingly his paramount end,"<sup>1</sup>—always the true socialist thinks as though individuals are or should be fused into a collective unit that can act with singleness of purpose.

Likewise they not only blame existing institutions, such as private property, for all our social ills; but they believe that by fashioning new institutions we can remedy those ills. Such a belief, of course, indicates considerable optimism,—another indication of idealistic tendencies.

As illustrating both the last two points, stand the socialists' teaching that the physical facts of natural scarcity and limited land supply (and diminishing returns) can be negated by collective ownership or by the abolition of all ownership. Of similar significance is the fact that the Classical law of diminishing returns is scouted by the typical socialist.

But, as is apt to be the case with those "systems" of thought that come to be recognized as being on the whole "unsound," we find discordant materialistic elements creeping into the socialistic utopia and remaining there without any synthesis. The earliest socialist and communist thinkers were generally pretty aristocratic and recognized the natural differences among men; but the later ones as generally assume, or reason as though they had assumed, the materialistic doctrine that men are naturally equal and that an equalized physical environment will establish real equality. In thus magnifying the potency of physical facts, however, the socialists are cutting the ground from under the

<sup>1</sup> Webb, *Fabian Essays*, p. 57.

structure of their idealistic reforms, based upon the power of reason and of human institutions. Of more immediate economic significance, however, is the socialists' theory of value. Value as already shown, they have come to base upon cost, and more particularly the cost of labor. Under the influence of Marx they have refused to recognize utility as a determining element in the value problem. Now, cost is the measure of the resistance of nature to man, and it was in terms of cost that the materialistic Classical economist measured value. Surely if the socialists are to regard human values as dictated by physical facts they must give up their idealistic reforms. Marx's materialistic interpretation of history is his half conscious attempt to square Socialism with his theory of value and with the science of his day, by making the attainment of his ideals depend upon the operation of physical facts and forces. It is the attempt to make an idealistic body run upon materialistic legs — to proceed in a revolutionary way by evolutionary means.

Socialism would direct industrial activities according to some conception of total utility worked out either through the judgment of leaders having authority or through democratic vote. How can it base economic values upon cost whether measured in units of pain or of time? To attempt to value goods on one basis and productive activities or industries on another, is foredoomed.

As might be expected, the incompatible materialistic elements are now being rapidly cast out by the revisionists, though not until Socialism has all but lost its integrity as a body of thought.

**The Influence of the Socialists.** — The influence of Socialistic writers upon economic thought has been a very important one. Especially is this true of Marx and Rodbertus, though it should be remembered that both were heavily indebted to their predecessors. The effect of Socialistic criticisms can be fully appreciated only when its twofold aspect is realized; for, in addition to its direct or primary results, there has been a profound influence which might

be called reactional, — a tacit tendency so to modify or state economic doctrines as to take the ground from underneath Socialism.

1. *Direct or Primary Effects.* — (a) In the first place, among the primary effects of Socialistic thought upon economic theory, a point already made with regard to the earlier Socialists should be reiterated. The so-called "scientific Socialists" continued and strengthened the idea that social institutions are of historical growth and relative to environment, particularly Karl Marx, who added a wealth of illustration from industrial history to strengthen his position. This idea was potent in overthrowing the conceptions of nature philosophy and the "natural."

(b) The Socialists gave greater strength to such tendency as there was among the economists to take the social point of view. As already stated, they emphasized the fact that modern production involves a large degree of coöperation and that the product is to that extent a social one. A similar idea appears in the doctrine of conjuncture. And in their ideas concerning crises and overproduction they kept to the front the concept of social utility, as contrasted with the private, individualistic standpoint, from which economists considered exchange value alone.

(c) Socialistic criticism, moreover, has led to a closer analysis of the economic functions of the state. Whether collectivists, State Socialists, Communists, or anarchists, some more or less radical change in the office of the government was involved; some alteration in the scope of the individual's activity. The discussion of such topics has made possible a more accurate separation of those activities which are most profitably intrusted to the state from those which are properly private. The result has been a saner individualism on the one hand; while men are no longer alarmed when the government takes over some branch of industry which the principles of politics and economics show will be best administered for the public welfare when in public hands.

(d) Socialism, too, has emphasized the problems of distribution as contrasted with production, and, above all, has kept the question of distributive justice heavy upon our consciences. It must not be thought for a moment that economists as a whole had overlooked this question. From Adam Smith on, some had dealt sympathetically with it, while others, like Senior, had honestly believed — and perhaps correctly — that their science would make most progress by eliminating such questions, leaving them to ethics and politics. But there is such a thing as undue abstraction and narrowness in this regard. The Socialists, then, with their charges of exploitation, have perhaps done a service to economists by causing them to consider the question, What is a just wage?

On the other hand, it may be that some economists have been led too far afield in discussing such problems, that is, have unduly broadened the field of discussion open to economists as such.

(e) Socialism as a whole has brought the general idea of unearned income into prominence, and particularly "agrarian socialism," in centering attention upon landed property, has emphasized the "unearned increment" of land.

(f) Undoubtedly the function of capital and the nature of profits have been placed in a clearer light on account of Socialistic attacks. It is most obvious that the refutation of arguments that capital is merely congealed labor and that profits are robbery, involved a more careful analysis of the doctrines of Smith and Ricardo than had been given to them prior to the days of Rodbertus and Marx. Even the writings of the earlier Socialists probably had some direct effect in this way.

But somewhat less obvious would be a possible negative influence upon certain theories. It is possible that the downfall of the wages-fund doctrine may have been furthered by Socialistic criticism;<sup>1</sup> while the separation of profits from interest would be encouraged, partly because of the Socialist

<sup>1</sup> See above, p. 439, and below, pp. 516 ff.

emphasis of the non-productivity of *capital*, partly to put interest in a better light. Both of these developments, however, would have come regardless of Socialism.

2. *Secondary or Reactional Effects.*—(a) By way of reaction, Socialism has deeply influenced the tone and emphasis of economic writings. The effects here referred to are far too subtle to be pointed out in detail. One cannot read the works of the Austrian school or of Professor J. B. Clark, however, without finding evidence of what is meant. To-day there is no text-book of economics but that gives some space to a criticism of Socialism, and here and there stresses some point in theory as running counter to its doctrines.

(b) Certain particular theories have probably received their present emphasis, in part, at least, from a desire to refute Socialism. For illustration, the productivity theory of distribution as developed by the Austrians and Professor Clark may be mentioned. A part of the idea seems to be that if it can be shown that each factor of production gets what it produces the problem of distributive justice is solved.<sup>1</sup> And so it is with the utility side of value. It is not improbable that the narrow, labor-cost theories of the Socialists helped bring on the reaction to extreme marginal utility theories beginning in the seventies.<sup>2</sup> This would be the logical result of the narrow and extreme way in which Marx carried the doctrines of Smith and Ricardo on value to a *reductio ad absurdum*.

Even before this, as has already been suggested, the theory of abstinence was doubtless stimulated as a result of Socialistic criticism; and in later days, the refinement of this theory as illustrated by the adoption of such concepts as those of "saving" and "waiting" clearly have been stimulated by the attacks which have been made upon the doctrine of abstinence.<sup>3</sup>

<sup>1</sup> Which idea overlooks the difference between personal and functional distribution.

<sup>2</sup> See below, p. 535. There had been marginal-utility theories long before but they had fallen on deaf ears.

<sup>3</sup> E.g. Lassalle's classic bit of irony concerning the abstinence of Baron Rothschild. Cf. Bullock, *Principles of Economics*, 3d ed., p. 140.

## NOTE ON THE EARLY EFFECT OF SOCIALISM UPON ECONOMICS

Socialism, as such, was first effective as a criticism of economics, as such, in France. Saint-Simon, between 1803 and 1823, attacked the optimistic treatment of self-interest as the great motive force in economics and emphasized the functions and duties of individuals in society rather than their rights and privileges. Idleness and misdirection of industry were pointed to as existing evils. His followers raised the social question involved in the separation of laborers from the instruments of production and indicated the wastes of middlemen. Fourier stressed the idea of consumption and the value of association in production. Between 1840 and 1846, Blanc and Proudhon, with a less utopian spirit, brought out the dark side of competition and maintained the right of all men to subsistence. Proudhon is especially important in this connection, for, though his writing was incoherent, he was most vehement in his direct assaults upon economics and his criticisms reacted upon economists as well as affecting later Socialists. He vigorously assailed the institution of private property, especially in land, and challenged the justice of profits. He ridiculed the economists' theory of value and himself propounded a labor-cost theory. All these early French Socialists held to a rather mechanical historical concept of society.

With the failure of the revolution of 1848, French Socialism was all but extinguished; but its effects lived after it. In France, economists reacted almost violently, and the extremes of French Liberalism are no doubt in part due to hostility to Socialism. We see this beginning with Bastiat and down to the present time. More than this, the torch was handed to German thinkers, and in 1842 appeared Lorenz von Stein's *Der Sozialismus und Kommunismus des heutigen Frankreichs* (*The Socialism and Communism of contemporary France*). In 1846 Stein made the following statement which is in the nature of a prediction: "The fruitful works of Socialistic literature form an independent whole beside the old political economy. They have not yet been incorporated, but it will be impossible permanently to refuse them their place beside other theories."<sup>1</sup> And it has been in Germany that this prediction has come nearest to fulfillment.

<sup>1</sup> *Zeitschrift f. ges. Staatswissenschaft*, 1846, p. 242.

First came German "scientific" Socialism with Rodbertus and Marx. Dating perhaps from the *Communist Manifesto* (1848), a theory of social evolution was framed which in its emphasis of the material basis and class struggle has profoundly affected economics.

Down to about 1850, socialistic thought found little if any hold in Germany, whether in the journals or the economic treatises; but about 1848 the fire was kindled and its glow rapidly colored the thoughts of economists. In that year we find Hildebrand referring to the merits of the Socialists in emphasizing ethical factors in economics. Various conditions, at that time peculiar to German thought, fanned, as it were, this development. More remotely, the Kameralistic background made it easier to incorporate state participation in industry into economics than would have been the case in England, for example. But above all, a new and truer concept of society was evolving.<sup>1</sup> First came the concept of law and government as products of evolution, and then the clear distinction between the concepts of government and society.

The Classical economists had to a large extent proceeded from a conception of the state or government as constituting the broadest existing social relationship. Within the government, which they conceived of as a quasi-mechanical political organization, the individual atoms moved according to the play of self-interest. They lacked the concept of a more fundamental relationship among men—the concept of "society" as distinct from government; and it followed that certain broader and deeper forces arising out of the social relation were slighted by them. Thus, the effects of low wages upon society were little considered. Moreover, even the pale conception of society found in classical economics was rather abstract and cold. Socialism by stressing the class idea made the class, at least, a live thing. Class-ism (and a class is a part of a living society) became a step toward a broader social point of view. From such a narrow conception of society, German thought had made much progress; and this fact, coupled with the other conditions mentioned, made the appreciation of the Socialists' philosophy much keener than elsewhere. The "discovery" of society did relatively little violence to German economics.

Accordingly, by the sixties the combined forces of Socialism and the general historical and ethical concepts of society had found clear expression in the thought of leading economists, reaching a climax about 1872 with Wagner's *Rede über die soziale Frage* and the formation of the *Verein für Socialpolitik* (1873).

<sup>1</sup> See Professor Philippovich's scholarly article on "*Das Eindringen der sozialpolitischen Ideen in die Literatur*" in *Die Entwicklung der deutschen Volkswirtschaftslehre im 19ten Jahrhundert*, 2ter Teil.



It is interesting to observe a close parallelism as to time in the development of English thought; though in England neither Socialism nor the Historical School has had anything like the influence which they exerted in Germany. J. S. Mill's *Principles of Political Economy* came in 1848, showing some influence by Saint-Simon and Sismondi. No evidence is found of any influence of Socialism on the discussions of the *Political Economy Club* till between 1850 and 1860. In 1869, we are told, Mill planned a work on Socialism, and only about 1870 did the broader concept of society find clear expression in the writings of Bagehot (*Physics and Politics*, 1872) and Leslie. Of course, one finds discussions of Socialism in earlier English books; but in such books the bearing of Socialism on value and distribution—to say nothing of the concept of society—is generally not recognized. They merely defend private property as a motivating force in production. Thus M'Culloch in his *Principles* (1825) defended security of property against such writers as Rousseau, Beccaria, and Mably, but went to extreme lengths in making labor the source of wealth without even mentioning them. Malthus, however, showed some effects of familiarity with socialistic speculations concerning a better organization of society and the perfectibility of human nature.

From Germany the torch was passed to the United States. Socialism came to exert an effect in this country about 1885, as is evidenced by the number of writings on Socialism which date from that time,<sup>1</sup> and by the fact that books on economics begin to show its influence then. Thus A. L. Perry, in his *Elements of Political Economy* (1873) shows no evidence of any direct socialistic influence. He confuses government with society and advocates *laissez faire* with little qualification.

The reasons for this tardy reaction in America are relatively simple. A strongly individualistic people in a rich new environment with a slight development of capitalism and class consciousness, furnishes shallow soil for socialistic seed. But with the crisis of 1873 the soil was deepened and enriched. There has come a wave of nationalism with the Civil War and it was strengthened by the growth of corporate business. Capitalism grew fast between the war and 1873, and the labor movement gathered way, finding expression in great strikes and political propaganda about 1876.

<sup>1</sup> A translation of Proudhon's work on Property was published in Boston in 1876. In 1880 Cook's *Socialism* and Woolsey's *Communism and Socialism* appeared. But in 1884 came Starkweather and Willson on *Socialism*, and Sumner on *What Social Classes Owe Each Other*; in 1885 Hill on *Principles and Fallacies of Socialism*; and in 1886 Ely's *French and German Socialism*, Osgood's *Scientific Socialism*, Brown's *Studies in Modern Socialism*, Graham's *The Social Problem*. Roles' *The Social Danger*, and Behrends' *Socialism and Christianity*.

Finally, in the early eighties, a considerable number of young German-trained economists furnished a carrier for new concepts of society,—pupils of Conrad, for instance, introducing new ideas on method and state interference. But in 1885, Professor Newcomb, in his *Principles of Political Economy*, devotes some attention to Socialism, and General Walker writing in 1883 shows clear evidence of the effects of the Socialistic leaven. He attacks economists<sup>1</sup> for arguing that there is no danger in wage reductions, and shows that the larger profits may go into luxurious expenditure rather than greater demand for labor, while labor itself may become permanently degraded. He points to the great bodies of brutalized laborers in Europe as evidence. Walker also denies the sufficiency of self-interest to insure wise action, and he specifically recognizes the limitations of a purely economic point of view, criticizing Bastiat for attempting to justify the existing order.

<sup>1</sup> *Political Economy*, p. 285.

## 2. THE SCOPE AND METHOD

Political Economy as developed by Adam Smith was not only incomplete in number of theorems established, but was also rather inchoate in form: its scope was not clearly defined, and its method was not differentiated. It is but natural that, at so early a date and in so early a stage, the new science was, so to speak, neither methodologically self-conscious nor exactly decided concerning its boundaries or subject matter.

For one thing it naïvely combined within its scope both the arts of economy and government and the science of value. It was a jumble of theory and practical policies, — without being aware of the fact. Smith dealt with the causes of improvement in the productive powers of labor, with the distribution of the produce of labor among the various ranks and conditions of men, and with the effects of the accumulation of capital; all with the general idea of the enrichment of the people and the sovereign. Evidently this conception of the scope of economics includes a large measure of the art of economy, and for its complete development would involve not only a mingling of economics with ethics and politics, but also the inclusion of many technical and psychological data in connection with production and consumption, respectively.

Closely associated with this condition was the wavering treatment of wealth and the problem of value as regards the objects to which these concepts should apply and their relative importance in economics. Should "wealth" be limited to material goods? Should economics be confined to the study of the phenomena of exchange value? Should "value" be limited to its objective manifestations? The Physiocrats used the term "wealth" to apply to material

goods only, and centered economics in exchange value. The English Classicists were more inclined to include "services," but not to treat them as coördinate with material wealth; and, being more concerned with the laborer and with consumption, they came to emphasize the distribution of wealth among the members of society. This kept up a steady tendency toward ethical considerations. Moreover the adoption of the production-distribution-consumption economics tended to maintain the conception of wealth as consisting of material goods and the emphasis of objective values, for the obvious reason that it would be difficult if not impossible to trace the production and consumption of non-material things. The result was that the Classical economics generally consisted of a body of semi-scientific thought concerning exchange values — of material goods —, imbedded in a mass of practical doctrines and descriptive statements concerning the wellbeing of "producers" and "consumers" and the finances of the state.

The scope of the Classical economics has been criticized by many. To mention but a few, Senior advocated the elimination of the practical and ethical elements. Müller and List urged the inclusion of various intangible social values, or "immaterial capital." Sismondi, too, is well known for his attack upon *chrématistique*, and he desired to make economics the art of increasing national happiness. The absolute and statical character of the prevailing economic analysis was much criticized, and notably by the Historical School to be discussed in following chapters. Most of these critics, except such as Senior, it will be observed, sought to broaden the scope of the science. It is interesting, therefore, to note a group which argued that the Classical economics was too broad and complex — too loosely knit — to be a real science; and which desired to reduce it to a science of exchanges. This group is briefly discussed in the next chapter, and similar views may be found among the mathematical economists of the subjective school, *e.g.*, Jevons and Walras.

As already indicated (page 20), the method is related to the scope. When the science is deemed complete and its principles established, the use of induction is apt to fall to a minimum and the use of deduction to prevail. Accordingly, as the Classical economics grew in power it became more deductive. In the hands of Ricardo and his followers, the method became largely abstract and deductive. One does not have to read far in the works of M'Culloch, James Mill, and De Quincey to become convinced of that. And, as has just been seen, John Stuart Mill in his *Political Economy* perpetuated the method. This method is apt to be associated with "absolutism" in thought, as is illustrated by the nature of the assumptions concerning property and competition which were made by the Classical School. These social institutions were valuable adjuncts to the individualistic philosophy which was instrumental in breaking down Medievalism, but when fixedly assumed as "natural," without regard to evolving social conditions, they became the unsound premises for erroneous conclusions. Following chapters will recount how critics arose against this abstract-deductive method with its attendant absolutism. While attacking the method, they also pointed out the existence of narrowness and fallacies in the conclusions of the Ricardians, and Smith also came in for a share of criticism, though, on the whole, not so large a one.

## CHAPTER XXIV

### THE ADVOCATES OF A NARROW EXCHANGE-VALUE ECONOMICS: CRITICISM OF THE SCOPE OF CLASSICAL ECONOMICS

AMONG the earliest criticisms of the Classical School was one directed toward the scope which that school had given to the science of Economics. This criticism attacked the prevailing definition of wealth and the division of the science into such branches as Production, Distribution, and Consumption; and it was so framed that it might almost be called an attempt at reconstruction. It was unfortunate, however, in that it was based upon such a shallow understanding of the Classical doctrines, and involved such an attenuation of the science, that it gained but a small following.

The criticism referred to, although it was but an offshoot of the Physiocratic system, may be said to have been initiated by Whately, and to have centered in the thought of Bastiat and McLeod. One will find difficulty in discovering any discussion of McLeod in standard works, and Bastiat is commonly known as a shallow optimist who did not succeed in constructing a well-rounded work. Bastiat, however, died (1850) before completing his work; while McLeod was too much concerned with his own ideas to understand those which he criticized. He also lacked the brilliant style of the French writer.

**Antecedents of the Exchange-Value Economics.**—In order to understand the thought of the writers just mentioned it is necessary to go back to the Physiocrats. It will be remembered that those eighteenth-century economists believed in a harmonious natural order and were optimistic adherents of the doctrine of *laissez faire*. They regarded

value and wealth as mere exchange phenomena, and were not concerned with distribution in the Say-Ricardo sense. Their idea of production, too, differed widely from that later adopted by the English Classical School. While the Physiocratic school came to an end with the French Revolution, its direct influence continued to be felt in France and has never quite died. Especially to be mentioned is Condillac, who, while a critic of the Physiocrats, had some ideas in common with them; and, what is more to our purpose, appears to have influenced Bastiat and McLeod.

Condillac's ideas concerning value will be referred to in connection with another school of reconstruction. Here it is only necessary to note that he regarded economics as a science of commerce or exchange, believed that both parties to an exchange gain, and advocated free trade. Also, he maintained that value is not based upon labor; that in fact cost is sanctioned by value, not value by cost.

Lauderdale also appears to have influenced the advocates of a narrow, exchange-value economics. He clearly showed that there is no intrinsic value, and that no fixed standard of value is possible. Above all he formulated a sort of law of value, according to which value varies (1) according to the demand and supply with relation to the commodity whose value is expressed, and (2) according to the demand and supply with relation to the commodity adopted as a measure of value. Also Lauderdale's distinction between public and private wealth may have suggested the idea of confining economic science rigidly to the latter.

Most important as a direct predecessor, however, was Archbishop Richard Whately (1787-1863), who is notable for his argument in favor of making Political Economy a science of "Catallactics," or exchange.<sup>1</sup> Whately held that in making wealth the subject of the science economists had introduced confusions arising from the fact that the same things are not always wealth: economics, he said, should be a science not of the things exchanged, but of exchanges.

<sup>1</sup> *Introductory Lectures on Political Economy* (1832).

Furthermore he not only stated that labor is not essential to value, but went so far as to claim that men dive for pearls because they have value. Whately, however, appears to have accepted the main framework of the Classical economics.

The French economist, Dunoyer,<sup>1</sup> in his optimism, his treatment of immaterial wealth, and his doctrine of the ingratuitous service of land, is to be mentioned as a forerunner of Bastiat,—one who handed on Physiocratic influences.

**Bastiat and McLeod.** — Bastiat himself has already been discussed as one who on the whole belonged to the Classical School, falling in the French Liberal wing and showing a characteristic optimism. He was a strong believer in a beneficent natural law which if let alone would bring the industrial world into harmonious order. To him men seemed to have an inalienable right to free trade. The point to be emphasized, however, is that he made value the starting point and center of his economics, and held that value is only known in exchange. "Value consists, then, in the comparative appreciation of reciprocal services, and so one may say that Political Economy is the theory of value." But value, he said, is not necessarily connected with material things; in fact, immaterial wealth exists, and, as indicated in the foregoing quotation, he puts everything in terms of "services." Bastiat would amend the labor cost theory of value, and substitute therefor the idea of effort saved to the purchaser, that is, the "service" rendered. By assuming that all property represents services rendered by the owner, he would have relieved economic thought of all ethical responsibility.

In discussing interest, Bastiat says: "Saving implies a service performed, and time allowed for an equivalent service to be rendered in return; or to put it more generally, it means placing an interval of time between the service performed and the service received. . . . The lapse of time

<sup>1</sup> See above, p. 329 f.



which separates the two services exchanged is itself a matter of arrangement and exchange, for it too has value." This is an important early statement of the significance of the time element in the determination of the interest rate.

Though McLeod was neither so brilliant nor influential as Bastiat, the group of exchange-economics critics may be said to culminate in him. Professor Marshall in a note on Ricardo's theory of value takes up Jevons' criticism and goes on to say that similar attacks had been made by many, but that "among them may especially be mentioned McLeod, whose writings before 1870 anticipated much both of the form and substance of recent criticisms on the Classical doctrines of value in relation to cost, by Profs. Walras and Carl Menger, who were contemporary with Jevons, and Profs. v. Böhm-Bawerk and Wieser, who were later."

Henry Dunning McLeod graduated in 1843 from Trinity College, Cambridge, with honors in mathematics. In 1857 he published his *Elements of Political Economy* and in 1896 his *History of Economics*.<sup>1</sup> He claimed that economics is not only a moral science but also a physical science: "we find that the general laws of exchange, or the principles of commerce, hold good among all nations. . . . The laws of commerce are identically the same to-day as they were when commerce first sprung into being, and they will remain the same to the end of time. . . . Economics may be raised to the rank of an exact science . . . of the same nature as the physical sciences." He goes directly back to the Physiocrats, hailing them as the true founders of the science, rather than Adam Smith, and he draws support from the Roman jurists, Lauderdale, Whately, and Bastiat. His one great idea is that economics should be made a science of exchanges and deal exclusively in exchange value. "Value," he defines as an affection of the mind, and not as a quality of an object. "It is the desire of the mind toward

<sup>1</sup> Other works: *Theory and Practice of Banking* (5th ed. 1892-1893); *Dictionary of Political Economy*, Vol. I (1862); *Lectures on Credit and Banking* (1882); *Elements of Banking* (12th ed. 1895); *Theory of Credit* (1894); *Bimetallism* (1894).

something external; either to acquire it, which is positive value, or to get rid of it, which is negative value. When value or desire proceeds another step, and gives something to obtain its desire, it becomes demand. And all phenomena of value or exchanges arise from reciprocal demand."<sup>1</sup> Like Whately, he urges that inasmuch as all economic goods have but one quality, exchangeability, economics should be entirely devoted to that quality. It should be observed that while he makes value originate in demand, McLeod says that economics has no business with psychological explanations of demand: "Economics has nothing to do with impotent desires of the mind which have no external manifestation." Thus his analysis is highly objective.

As exchangeability is the only criterion of "wealth" recognized by him, he takes immaterial and incorporeal items into the category, and even criticises the Physiocrats for limiting the concept of wealth to material goods. McLeod's emphasis of incorporated goods has aroused some interest, but has had little effect upon the science.

Another idea stressed by McLeod is that of "negative wealth," under which head he puts credits. Every sum of money, he says, may be regarded as "the sum of the present values of an infinite series of future payments, or . . . an annuity. And these annuities are negative economic quantities." This idea has been favorably commented upon by the English mathematical economist, Jevons.

McLeod was an individualist and a free trader.

Superficiality and egotism mar McLeod's work. For example, he berates Ricardo for what he thinks a faulty rent theory, saying that it is Ricardo's idea that marginal cost determines price, but that it is price that really determines the margin of agricultural production. And he fails to see any reason for treating credits as claims upon wealth and offsetting them directly, instead of treating them as additions to exchangeable commodities. In a word, his point of view is a narrow, individualistic one, and his vision is

<sup>1</sup> *History of Economics*. p. 158.

obscured by omitting production and consumption from consideration.

**Some Adherents.** — The American, A. L. Perry,<sup>1</sup> seems to combine the ideas of Bastiat and McLeod without making any improvements: Economics is the science of exchanges, or value; reciprocal demand constitutes value; the Ricardian theory of rent is erroneous; only specific duties for revenue purposes are justifiable.

Michel Chevalier (1806–1879), the French economist, appears to have been somewhat influenced by McLeod as well as by Bastiat.

Walter Bagehot, in his ideas on the scope of economics,<sup>2</sup> and Jevons in his value theory, show some affinity with McLeod's theories; but are not to be thought of as belonging entirely to the group now under discussion. It also seems probable that Walras was influenced directly or indirectly by Bastiat and McLeod; and the Italian economist, Pantaleoni, in his *Pure Economics*, shows clear traces of McLeod's ideas.

**Summary.** — The writers thus briefly mentioned are alike in that they severely criticized the scope given to economics by Smith and Ricardo. Surely it is interesting to find a group, no matter how weak, which traces its descent directly from *Les Économistes* of 1750; and it serves to bring out the differences, sometimes forgotten, which existed between the economics of Smith and Quesnay. It is as if a separate branch from one of the two eighteenth-century roots of the tree of economics had made itself known by the different fruit which it bore. Had Whately, Bastiat, and McLeod had their way, economic analysis would have been simplified, and the scope of economics much narrowed. Only such aspects of production and distribution would have been included as would fall within the field of exchange, and consumption would have been practically excluded.

The group discussed in this chapter agreed in desiring to make economics a science of value and confining it to

<sup>1</sup> *Elements of Political Economy* (1866).

<sup>2</sup> See below, p. 475.

exchange relations. In accordance with this idea, they rejected the material concept of wealth, and the labor-cost theory of value. They included immaterial goods and emphasized demand in their discussion of the determination of value. A mathematical slant is apparent in their thought. Both Bastiat and McLeod anticipated the Austrian School in some respects, concerning both value and interest, their discussion of the time element in connection with loans being noteworthy.

All were individualistic, *laissez-faire*, and optimistic.

The standing gained by most of the economists mentioned is so small that it may be well to point out that the main idea for which they stood is not an absurd one, but on the contrary is quite reasonable. In fact, in view of the difficulties and inconsistencies in which the complicated mass of Classical economic doctrine was involved, it is not surprising that the simplification of the science was proposed. The political economy of the day was built upon a mass of little understood premises and hypotheses, some of which were under attack by the Socialists. The labor-cost theory of value was breaking down, and the "shares" in "distribution" seemed to constitute an insoluble problem. John Stuart Mill's restatement was evidently not final, and political economy seemed to be drawing no nearer to the goal of becoming a true science. How easy, then, to give up the attempt to carry out the analysis based upon "wealth" in the social sense, and upon definitions of wages, interest, rent, and profits which did not conform to business usage, and to substitute therefor concepts based upon a private-business point of view. Instead of a maze of cost and utility analysis take the objective facts of market ratios without inquiring why. Let wealth equal all exchangeable things; let production equal offering for sale; take consumption for granted, and in its place put demand. Thus could be built a limited but exact science, — a science of business or commerce. This would be in the spirit of the original *Économistes*.

Of course this statement carries its own criticism. Such

a "science" would require another one to answer the numerous "whys" that would arise at every point. Like accountancy it would take an extreme individualistic point of view and would fail to explain the phenomena of industrial society. It would suffice for a stock or produce exchange, but it would not be political economy or social science.

It would be interesting, were it possible, to trace the part played by Socialism in occasioning the movement described in this chapter. There can be no doubt that a desire to refute socialistic doctrines was partly responsible for the abandonment of cost theories; and by beginning with commodity values, determined by demand and supply (chiefly demand), troublesome questions concerning the rewards for the factors of production were eliminated from the discussion. In this respect, the exchange-value economists resemble the subjective-value group which about 1870 attempted to reconstruct the science. Neither group was concerned with "Distribution," but both endeavored to determine value without regard to the factors of production and their "costs." Both were mathematically inclined; and both emphasized demand. The great difference lies in the fact that one attempted to develop a cold and thin theory of objective, market-place values; while the other, as we will see, became involved in such psychological mazes that they hardly found their way as far as the market.

## CHAPTER XXV

### CONCRETE-HISTORICAL CRITICISM IN ENGLAND

ONE of the most just criticisms of the English Classical School concerns the abstract character of its reasoning. In order to weigh rightly this criticism, however, it is essential to observe that it has at least two aspects, and that they vary in their importance. Thus it is one thing to set up a number of abstractions and then to proceed as though they were the concrete facts; but it is another matter to cut away certain complications with the idea of ascertaining clearly what would happen without them, consciously leaving the introduction of any complications desired to further inquiry. Too often, a thinker begins with the second mode of procedure only to become blind to the complications, and so to end in the narrowness and absolutism which characterize the first type. But this need not blind one to the legitimacy and the advantages of the second. It has, however, blinded certain critics in whole or in part; and, as will appear, the valid and the invalid, the conscious and the unconscious abstraction, have been assailed without discrimination.

Some of the reasons for the abstract character of the early political economists, English and French, have been referred to in discussing those men. For one thing, the material and machinery for effective concrete investigation were deficient. History was inadequate; statistics likewise. Even had the material existed in abundance, there is, perhaps, some force in Leslie's point that the canons of induction had not been developed, that branch of logic being then an inferior instrument. The outline of the science had to be developed in

order to cause a demand for materials to complete and correct it. More positively, the methods of the other sciences were influential. In the natural sciences, the more abstract and deductive methods of astronomy were the pattern, while the speculations of moral philosophy gave the more immediate background. Furthermore, the nature philosophy dominant at the birth of political economy begot a tendency to doctrinal absolutism that easily resulted in undue abstraction: *laissez faire* was made a law of nature, applicable in all times and places, — and forthwith its existence in the shape of free competition became assumed as more than an hypothesis.

To be sure, there is much historical matter in the *Wealth of Nations*, and Smith's method is by no means entirely deductive. And, following Smith, Malthus introduces the results of travel and wide historical reading in his *Principles of Population*. But in both cases the facts were introduced chiefly to illustrate *a priori* conclusions.

This tendency to undue abstraction reached its height in the Ricardian school, and at about the same time a reaction and criticism of it appeared. It has already been pointed out that nations whose circumstances differed from those of England — especially Germany and the United States — took issue with generalizations which did not fit their concrete conditions, and the Nationalists arose. This line of objection and others were then developed and given a broad, scientific setting by the German Historical School. In the present chapter are to be traced similar developments in the land of Smithianism and Ricardianism. It should be pointed out in advance that the writers to be treated do not form a "school" as did the German historical economists. Their work was sporadic, and, as will be seen, was scattered over a long period of time.

Though merely to be mentioned here, the importance of the example set by Darwin and Spencer about the middle of the century needs to be remembered. The careful study of facts was stimulated by Darwin's work on the law of

struggle for survival; and Spencer's *Social Statics* (1850), treating of the evolution of society through natural law, gave further impetus to the historical idea.

John Craig and John Rooke may be passed over with a word: The latter was optimistic, somewhat inclined to refer to history, and criticized Ricardo for overlooking temporary and concrete things; <sup>1</sup> the former in his *Remarks on Political Economy* (1821) argued against the doctrine that wages and profits must vary inversely, appealing to history for evidence. Craig also was critically inclined toward the Ricardian wage and rent theories.

**Richard Jones.** — Richard Jones (1790–1855) may be named as the first important rebel. His particular point of attack was the Ricardian doctrine of rent, which he assailed in vigorous terms in his *Essay on the Distribution of Wealth and on the Sources of Taxation* (1831).<sup>2</sup> All land rents he divides into two classes: peasant rents and farmers' rents. The former are determined solely by bargain between the proprietor and a set of laborers who are chained to the soil and use their small capital to get a bare living. Jones' contention is that farmers' rents deserve the exclusive attention given to them only as a scientific problem affording mental gymnastics; if the number of people concerned be considered, peasant rents are far and away the more important, — in the past they have prevailed everywhere, and are the predominant form of rent now (1831).

The abstract assumptions of Ricardo's teaching are pointed out as follows. If (1) lands were first appropriated by those willing to bestow pains on cultivation, and (2) if there were free access to uncultivated lands, the theory would hold; "but the past history and present state of the world yield abundant testimony, that it neither is, nor ever has been, a practical truth, and that the assumption of it as the basis of a system of political philosophy is a mere fallacy."<sup>3</sup> Jones further states that Ricardians make the

<sup>1</sup> *Principles of National Wealth* (1825).

<sup>2</sup> Vol. I. No other appeared.

<sup>3</sup> *Distribution of Wealth*, Chap. I.



"visionary" assumptions that (3) while there is unoccupied land, no rent, except in proportion to superiority over such land, exists, and that (4) rent is never the immediate result of cultivation. Jones also denies that rent increases only through the resort to inferior agricultural investments, his argument being easily triumphant, — as he sees it, — since he denies diminishing returns on the ground that improvements in the arts of production invalidate it.<sup>1</sup>

That these criticisms do not touch the heart of the theory of rent will be readily recognized. Properly interpreted, the third Ricardian assumption is correct as a long-run tendency, and Jones seems to be in error in putting the fourth assumption into the mouth of Ricardo. His criticism of diminishing returns, however, brought out the necessity for a distinction between the historical law and one good at any given time. His chief service in this connection is that he called men's attention to the fact that frequently what is called rent is not *economic* rent, and, in general, pointed out that the rent theory as commonly stated rests on certain abstractions which limit its application.

In this same work, Jones shows that where peasant rents obtain, the interests of the landlord and society are not opposed; and he criticizes the wages-fund theory, as will appear later.

Something of Jones' purpose and method are revealed in the following excerpt: "If we wish to make ourselves acquainted with the economy and arrangements by which the different nations of the earth produce or distribute their revenues, I really know of but one way to obtain our object, and that is to look and see."<sup>2</sup> And in 1833 in addressing the Indian cadets he said: "We must get comprehensive views of facts, that we may arrive at the principles that are truly comprehensive" — otherwise "general principles"

<sup>1</sup> *Distribution of Wealth*, Chap. I, p. 199.

<sup>2</sup> Introductory Lecture at King's College, *Literary Remains*, p. 569. Professor Marshall has pointed out that Jones did not sufficiently distinguish between generality of conception and method on the one hand, and generality of doctrine on the other. (*Old Generation of Economists and the New*, *Quar. Jr. Econ.* XI, 116.)

would have no generality. This spirit is to some extent illustrated in an article on "Primitive Political Economy of England" published in the *Edinburgh Review* for 1847. Here he gives an account of Mercantilism which is still worth reading.

Jones was little known to the outside world, but after 1859, when his *Literary Remains* were published through the activity of Dr. Whewell, he powerfully affected the minds of many English students.

Shortly following Jones' criticism came that of the American John Rae (1834) to which reference has already been made.<sup>1</sup> On the basis of Bacon's *Novum Organum*, he formulated certain canons of inductive science, and showed that Adam Smith's thought was not truly inductive.

**Walter Bagehot** (1826-1877), banker and son of a banker, and editor of the *Economist*, was an admirable combination of student and man of affairs. Though more inclined to follow Ricardo than any other writer to be mentioned in this chapter, he was kept from undue abstraction, and his great service was to show the relation between facts and theories, especially in reconciling economics and history.<sup>2</sup>

Bagehot's only notable thought on the material of pure theory concerns the entrepreneur or employing capitalist. His functions and importance are stated in some detail, and Bagehot was in advance of English economists in this matter. He insists that the costs of production are entrepreneur's expenses, of which he gives a peculiar and erroneous analysis.<sup>3</sup> His greatest positive contributions to economic thought lie in the field of money and banking.

<sup>1</sup> Above, p. 353.

<sup>2</sup> Bagehot's writings are as follows:—

*International Coinage* (1869).

*Depreciation of Silver* (1877). Reprinted from *Economist*.

*Lombard Street* (1873).

*Economic Studies*, a collection of his essays, published 1880.

*The English Constitution*.

*Essays on Parliamentary Reform*.

*Physics and Politics* (1872).

<sup>3</sup> *Economic Studies*, chapter on "Cost of Production."

But here the chief concern with Bagehot is his treatment of the method and scope of political economy. For one thing, he limited the application of the science to conditions such as prevailed in a well-developed exchange economy: "The science of Political Economy as we have it in England may be defined as the science of business, such as business is in large productive and trading communities." This science he recognized as a product of developments dating from the Industrial Revolution. There had been a pre-economic age when the assumptions now made would not apply. He was among the first of English economists to appreciate the idea of evolution in connection with social science. (In these matters Sir Henry Maine was to Bagehot what Savigny was to the German historical economists.) This fact appears clearly in his work on *Physics and Politics* (1872), in which he discusses the evolution from a pre-economic to an economic age. In this same work he brings out the force of custom as limiting competition. In fact, Bagehot states that there are three valid objections to the English political economy: it is too often put forward as explaining the principal — or even all — causes of wealth in all societies; it is too abstract; there is not enough verification. Moreover, he saw that competition did not always work for the best interests of mankind.

But Bagehot did not desire to abandon the deductive method nor abstraction. "The process by which physical science has become what it is, has not been that of discarding abstract speculations, but of working" them out. More verification is needed. Rightly understood, the historical and abstract methods are not in conflict. The complexity and ceaseless change of modern economic life make a complete record of industry impossible; statistics are a "scrap of scraps."

Though an admirer of Ricardo, Bagehot was not blind to that writer's tendency to reason about abstract things as though they were real: "He [Ricardo] thought he was considering actual human nature in its actual circumstances,

when he was really considering a fictitious nature in fictitious circumstances." <sup>1</sup> Of James Mill he says: "He would have shuddered at our modern conception of Political Economy as a convenient series of deductions from assumed axioms which are never quite true, which in many times and countries would be utterly untrue, but which are sufficiently near to the principal conditions of the modern world to make it useful to consider them by themselves."

**Leslie.** — In several respects the successor of Richard Jones was the Irish economist, Thomas Edward Cliffe Leslie (1825?–1882). He was educated at King William's College, Isle of Man, and Trinity College, Dublin, where he was greatly influenced by the lectures of Sir Henry Maine. In his writings, he carries Maine's historical method over into political economy. He was also a reader of Comte, and knew the German Historical School through the works of Roscher and Knies.

Leslie's chief work is collected in two volumes of essays: *Land Systems and Industrial Economy of Ireland, England, and Continental Countries* (1870); and *Essays in Moral and Political Philosophy* (1879). His positive contributions concerned prices, wages, distribution of precious metals, and agrarian problems. His attack on the wages-fund theory will be mentioned in another chapter.

But Leslie's significance lies in the negative or destructive work he did, notably his opposition to abstract, *a priori* methods in political economy. Ricardo, he says, in his "laws" of natural wages, profits, and prices, ignored the essential difference between stationary and progressive societies. Had the economists, for example, in place of reasoning from an assumption, examined the facts, great inequalities in wages, even within the same occupation, would have been recognized. In Leslie's eyes, as in those of the German Historical School, man is not a mere exchanging animal — a personification of an abstraction; "he is the actual human being such as history and surrounding circum-

<sup>1</sup> *Economic Studies*, chapter on "Cost of Production," p. 157.

stances have made him, with all his wants, passions, and infirmities."

Pure deduction, he held, had betrayed Ricardians into "enormous fallacies," from which Smith's element of induction had saved him, such as the doctrine of equalized wages and profits and the theory that the rate of profits cannot rise except by a fall in wages.

Leslie strove valiantly to dispel what he termed "the ancient mist of realism," that is, the practice of confusing several ideas in one word. Thus he argued that the "wages-fund" was an imaginary category; that "private interest" is merely a collective term for a number of individual wants, wishes, and tastes which vary with time and place; it is confused, too, with the phrase, "desire for wealth," which, in turn, stands for a multiplicity of ideas.<sup>1</sup> Even such a word as "emigration," Leslie shows, has been used to confuse a healthful movement such as is effective in raising wages, with an ineffective and harmful one resulting from evil institutions.

The opinion that political economy had been prostituted to the ends of class interest was pretty clearly expressed by Leslie. Smith, he says, could not have foreseen how "'the progress of opulence' would govern the interpretation of his doctrines, or how the system he promulgated as the system of liberty, justice, and divine benevolence, would be moulded into a system of selfishness by 'the private interests and prejudices of particular orders of men.'" <sup>2</sup> Again he states: "Instead of a science of wealth, they give us a science *for* wealth." <sup>3</sup>

This broad-minded economist vigorously opposes the utilitarianism of the economists of his day. Happiness cannot be the ultimate and only test: if it is better to be a sad philosopher than a merry fool, as, according to Mill, all men of elevation admit, then there must be something more desirable than mere happiness. Leslie thinks that "the pro-

<sup>1</sup> *Land Systems*, etc., pp. 85 ff.

<sup>2</sup> *Essays*, p. 149.

<sup>3</sup> *Land Systems*, p. 89.

gressive improvement of living creatures" is the best purpose the world contains.

He does not, however, escape one of the weaknesses of the historical school. The negative character of his work has been mentioned, and his tendency is to leave us without definite conclusions. Political economy to him was "an assemblage of speculations and doctrines which are the result of a particular history." He believed that "no complete and final philosophy of life and human aims has been constructed; that the world abounds in unsoluble problems, and man's ideal of virtue is both historical and progressive." In short, Leslie was inclined to deny any validity to economic "laws."

It is not true, however, that he denied a place to the deductive method: "by *combining* the closest observation of phenomena with the boldest use of speculation and scientific hypothesis,"<sup>1</sup> other sciences had progressed. His whole contention is admirably formulated in the following quotation: political economy's "fundamental laws ought to be obtained by careful induction, that assumptions from which an unreal order of things and unreal uniformities are deduced cannot be regarded as final or adequate; and that facts, instead of being irrelevant to the economist's reasoning, are the phenomena from which he must infer his general principles, and by which he ought constantly to verify his deductions."<sup>2</sup> This may be profitably compared with Senior's views.<sup>3</sup>

It is to be remembered that final judgment can only with difficulty be pronounced concerning Leslie's thought; for the work which was to have set forth his ideas systematically was lost while in manuscript form. This severe blow is known to have hastened his death.

**Ingram.**—John Kells Ingram (1824–1907) was, like Leslie, an Irish economist in Trinity College, Dublin; and his views are in many respects identical with his countryman's. His chief works are an address on *The Present*

<sup>1</sup> *Essays*, p. 378.

<sup>2</sup> *Land Systems*, p. 358.

<sup>3</sup> See above, p. 311.

*Position and Prospects of Political Economy* (1878), and *A History of Political Economy*, originally published as the article on Political Economy in the *Encyclopædia Britannica*. Ingram complains that the Classical doctrines are "homogeneous with the school logic, with the abstract unhistorical jurisprudence, with the *a priori* ethics and politics, and other similar antiquated systems of thought."<sup>1</sup> They are too individualistic, unmoral, and consider exchange value too exclusively. We must base our studies more on modern physics and biology. The old abstract formulæ that all men desire wealth and dislike exertion, must be given up: "The laws of wealth must be inferred from the facts of wealth, not from the postulate of human selfishness." However, "reflective analysis" will be continually used: ascertained truths respecting human nature may be used as guides; and, occasionally, a deliberately instituted hypothesis may be legitimate.

Ingram was an outspoken follower of the philosopher, Auguste Comte, from whom he professed to draw his inspiration, though he was perfectly familiar with the German Historical School.<sup>2</sup>

**Toynbee.** — Arnold Toynbee (1852–1883) should not be forgotten among the concrete-historical critics. A young man when he died, his views had scarcely ripened, and his fragmentary writings sometimes show signs of haste and even inconsistency.<sup>3</sup>

All his work was colored by an earnest and enthusiastic desire for social reform, and he made a special study of poverty and the labor problem, frequently addressing labor meetings. He was a pioneer in settlement work.

The final collapse preceding Toynbee's untimely death

<sup>1</sup> *History*, p. 240.

<sup>2</sup> His position is most clearly and concisely stated in his preface to the English edition of Ely's *Introduction to Political Economy*, London, 1891.

<sup>3</sup> His published writings are embraced in a volume of *Lectures* containing essays on "Ricardo and the Old Political Economy," "The Industrial Revolution," and popular addresses on "Wages and Natural Law," "Industry and Democracy," "Are Radicals Socialists?" etc.

was brought on by one of his numerous speeches, this particular one being directed against the doctrines of Henry George.

Toynbee shows the relativity of the doctrines of the Classical School, making a survey of industrial history and bringing out the effects of the local setting on Smith, Malthus, and Ricardo. He then urges that democracy has made man deal with the question of a better distribution of wealth; economists must answer the question, whether the mass of workers can raise themselves under present conditions of competition and private property. Ricardo and Henry George answer, no. He cites statistics showing that real wages have risen, to "disprove Ricardo's proposition that no improvement is possible." In stating that interest tends to fall, Ricardo, he says, had overlooked the possibilities of expansion in the field of investment; and he denies the Ricardian laws as to the tendencies of rent, wages, and profits.

Toynbee shows his optimism in believing improvement compatible with the present social order, urging that since 1846 free trade, factory legislation, trade unions, and coöperative societies had caused higher wages. He hopes much from moral progress and self-help, and also advocates an extension of government ownership and public housing. He is not, however, a Socialist, for he accepts private property and repudiates all confiscation and violence.

Some noteworthy characteristics of his thought appear in his emphasis of the distinction between theory and practical science or art; of that between what is and what ought to be; of the force of custom; and of the relativity of human nature—"it slowly changes, and is modified by higher ideals."

His stand on the point of method may be summed up by stating that while criticizing the overuse of deduction, he saw no real opposition between it and the historical method.

**Thorold Rogers.**—Finally, Professor James E. Thorold Rogers (1823-1890) must be mentioned to complete the



account of the earlier historical reaction in England. Rogers was in spirit somewhat more akin to Jones and Bagehot than to Leslie and Ingram, with their greater emphasis on ethics. Thus he more nearly followed the Classical doctrines, while making a departure in the direction of careful historical and statistical investigation. His best-known work, the celebrated, though not uncriticized, *History of Agriculture and Prices in England* (1866-1882), is a monument of patient research. Others are, *Manual of Political Economy* (1868); *Six Centuries of Work and Wages* (1884); *The First Nine Years of the Bank of England* (1887); and *The Economic Interpretation of History* (1888). Rogers took up economics under Cobden's influence, and was also affected by Bastiat; therefore he might be classed with the Manchester School in so far as that school's peculiar tenets are concerned. He was opposed to what he believed to be the Ricardian doctrine of rent, however, laying emphasis upon the situation element and upon the fact that a movement from more to less fertile lands is not shown by history. Indeed, Rogers was very scornful toward Ricardo and his followers. The following quotations show his spirit: "By this historical study, I began to discover that much which popular economists believe to be natural is highly artificial; that what they call laws are too often hasty, inconsiderate, and inaccurate inductions; and that much which they consider to be demonstrably irrefutable is demonstrably false. . . . Two things have discredited political economy — the one its traditional disregard for facts; the other, its strangling itself with definitions."<sup>1</sup>

**Summary.** — It would be a serious error to fail to remark sufficiently upon the differences among the writers mentioned in this chapter. From the point of view of method and of relation to the Classical political economy, however, there is considerable unity among them. Thus, without exception, they show some appreciation of the historical method, though Bagehot would so limit the definition of

<sup>1</sup> *Econ. Interp. of Hist.*, Preface.

political economy as to make more place for abstraction and deduction than the others. The influence of Sir Henry Maine has been noticed, being marked and direct in the case of Leslie and of Bagehot.

In accord with this historical attitude is a common revolt against abstraction. All would limit it in some way or other. All call for more verification, — more concreteness. All criticize the economists, though Leslie and Rogers go far in defending Smith, and Bagehot is inclined to follow Ricardo in some matters.

In each case, some one or more particular doctrines of the Ricardians is attacked in a monograph or essay. ~~Not one accepts the wages-fund theory~~; all but Bagehot assail it. The same general opposition can be observed regarding the Ricardian theory of the relation between wages and profits. Jones, however, largely concentrates his criticism on the rent theory; Bagehot, on cost of production; Leslie, on the abstract assumptions, like that of a universal desire for wealth, and on the wages theory; Toynbee, on the movement of wages and profits; Ingram, on method.

The group is characterized by a rather clear tendency to optimism. All its members are either critical or hostile to Malthusianism. Jones and Toynbee reject what they understand as the law of diminishing returns. Holding that social institutions are potent in the field of distribution, as they were inclined to do, there was ground for hopefulness. Three of the later writers, at least, believed in the relativity and progress even of "human nature" and morals themselves.

These same three men — Leslie, Toynbee, Ingram — desired a close relation between political economy and other social sciences.

As a group, they deserve an honorable place in the history of economic thought. Though they left no important general treatise,<sup>1</sup> and their main significance is negative, they supplied a much-needed corrective to English political econ-

<sup>1</sup> Rogers' *Manual* is little more than a primer.

omy. They stood for breadth or concreteness, or both. True, with the exception of Bagehot, they entertained vain hopes for the establishment of a new political economy; but what they really achieved was a better and more human economics.

## CHAPTER XXVI

### THE GERMAN HISTORICAL SCHOOL<sup>1</sup>

DURING the middle years of the nineteenth century there arose in Germany an almost violent reaction against the dominant economics of Smith and Ricardo. This reaction found its chief expression in criticism of the philosophy and the methods of the earlier economists. It came about somewhat in this way.

**Circumstances Giving Rise to the School.** — Important developments had recently taken place in the world of thought outside of economics. Among the more remote of these was the philosophy of Hegel.<sup>2</sup> Hegelianism as a social theory regards the course of culture as an unfolding of the human spirit, as a sort of inherent self-development moving in an innately determined cycle. It contains a remarkable idea of evolution, — though not of evolution in the Darwinian sense, — and its influence is apparent, as will be seen, in the thought of at least one of the Historical School.

The economist and political scientist, Lorenz von Stein (1815–1890), was influential in applying Hegelian ideas to economics. A professor at Vienna from 1855 to 1888, Stein was a stimulating teacher and writer who combined a knowledge of French Socialism, and a realization of the interrelation of philosophy, economics, and law, with a considerable touch of the historical idea. He may be regarded

<sup>1</sup> In what follows, the historical method, as such, is emphasized. Several of the historical school were keen theorists and wrote valuable works dealing with economic theory; but their significance for this chapter lies in their revolt in method.

<sup>2</sup> Hegel's *Logic* was published, 1812–1816; *Philosophy of Right*, 1820. See *Encyclopædia Britannica*, "Ethics": "the essence of the universe is a process of thought from the abstract to the concrete; . . . the history of mankind is a history of the necessary development of the free spirit through the different forms of political organization."

as transitional from German classicism to a more advanced historical and social point of view.<sup>1</sup> He was a pioneer in the development of the concept of society as distinct from the state.

Of more immediate importance were developments in jurisprudence and philology. In the former science the work of Eichorn and Savigny was of notable effect. These men taught that juristic systems are of relative validity only; that they are the product of the social conditions in which they arise; and that what is just and proper at one stage may be the reverse at another. And at the same time, in the domain of the languages, the laws of comparative philology were being formulated, so that in the evolution of words and the methods of tracing that evolution there were suggestions for a comparative method of studying economics.

Bases for the new movement were also laid in the social and political developments of contemporary Germany. The *Zollverein* had been established in 1833, and German nationalism was on the rise. New and complicated industrial problems had come, especially the labor problem, and these clamored for a solution which the Classical School did not afford. Meanwhile, the Socialists were criticizing the existing social order and insisting upon the relativity of the institutions of property and inheritance. A confusion of conflicting ideas prevailed, while the old leaders, as Hildebrand said, were silent.<sup>2</sup>

Müller and List had already expressed nationalistic ideas, and had made a limited use of historical comparison; but they were partisans, and their historical knowledge was imperfect. Already the characteristic tendency of several German economists to emphasize nationality, moral forces, and the place of governmental activity has been observed. What the members of the Historical School did was to take all these tendencies, and acting under the stimuli just men-

<sup>1</sup> Stein wrote *Socialismus u. Kommunismus des heutigen Frankreich* (1843), *Lehrbuch der National Oekonomie* (1858), and other works.

<sup>2</sup> *Die Nationalökonomie der Gegenwart und Zukunft*.

tioned, to formulate them in a broad, scientific way, while concentrating attention upon the problem of method.

The thinkers of the new school saw that economic life is not isolated from political and social life, but has close connections with all civilization; that it is not the same with all men, but varies in different societies and nations under different circumstances and at different times. They revolted against the one-sided and rationalistic doctrines of their predecessors, and proceeded to formulate an "historical method" for political economy.

It is essential to an understanding of the historical movement in Germany, to distinguish between the older group which originated that movement, and the younger group which carried the tendency further, even going to extremes. The older group was largely, though not entirely, negative in its thought, *in so far as method was concerned*. Its members were attacking and tearing down the faulty abstract-deductive methods which they found predominant, and, while they formulated a method of their own, and their spirit of free investigation had most valuable positive results, still the negative aspect of their work was very large. They did not deny the existence of laws in economics, but they attacked *absolutism* and *abstract* deduction from *ideal postulates*. The younger group sought to develop and apply the historical method further, and in so doing they took a positive stand that the older group would not have sanctioned. They, too, carried on a negative work; but this had been largely done for them, and in their several ways they took it as their task to get more positive results from a pretty exclusive application of their method. They differed from the older group in that they went so far as to deny the existence of non-empirical laws in economics. As will appear, they have lately undergone a modification of spirit in the direction of greater breadth.

**The Older or More Negative Historical Group.**—First among the German historical economists came Wilhelm Roscher (1817–1894), professor at Göttingen and Leipzig.

Roscher thoroughly understood the Classical School, and in his positive theoretical writing was at one with it. Perhaps as a result he was the author of one of the few well-balanced German treatises on economics. In his now famous *Grundriss zu Vorlesungen über die Staatswissenschaft nach Geschichtlicher Methode* (Outline of Lectures on Political Science according to the Historical Method), published in 1843, however, he laid down the following program:<sup>1</sup> —

1. Political economy is a science which can only be explained in the closest relation to other social sciences, especially the history of jurisprudence, politics, and civilization.

2. A people is more than the mass of existing individuals, and an investigation of its economy cannot, therefore, be based upon a mere observation of present-day economic relations.

3. In order to derive laws from the mass of phenomena, as many peoples as possible should be compared. Ancient peoples, having run their full course, are peculiarly instructive; and similarities between the old and the new are especially fruitful.

4. The historical method will be slow to praise or blame economic institutions, for there have been few that have been entirely good or entirely bad for all peoples.

Accordingly, Roscher denied absolute truth as to general economic laws: "general principles" are necessarily incomplete abstractions. He would have recognized only national economics, holding that each people and each age has its own peculiar economy. The economist should thus confine himself to the statement of rules of government which are applicable to his particular economy and are based on a study of various stages of industrial evolution.

Roscher shows clear evidence of the influence of Hegelianism.<sup>2</sup> The history of a nation is the unfolding of the

<sup>1</sup> Vorrede (preface). A full translation may be found in the *Quarterly Journal of Economics*, October, 1894. On Roscher see also the excellent article by Oncken in Palgrave's *Dictionary of Political Economy*.

<sup>2</sup> Veblen, "Gustav Schmoller's Economics," *Quart. Jr. Econ.*, 1901.

human spirit: it is a cycle, repeating itself in different ages. The province of economics is to determine the laws of this process from the economic point of view. This idea is probably to be regarded as having a taint of error, for there is no proof of the existence of any such cultural laws as it assumes. It is surely over-idealistic to regard environmental conditions as mere disturbing elements in a self-development cycle, as Roscher sometimes seems inclined to do.

The next apostle of the historical method was Bruno Hildebrand (1812-1878), whose book, *Die Nationalökonomie der Gegenwart und Zukunft* (The National Economy of the Present and Future), appeared in 1848.<sup>1</sup> Hildebrand writes brilliantly and clearly, but his profundity seems much less than Ingram, for instance, ascribes to him. His criticism of Socialism is admirable, but he shows a lack of thorough understanding of the founders of the Classical School.

Hildebrand opens with the explanation that his work is an attempt to break the way for an historical direction and method in economics, a reform similar to that already made in philology.

Smith, Hildebrand says, erred, like the Mercantilists and Physiocrats before him, in attempting to build a theory which would apply to all times and places. Though Rau had denied this, on the ground that national lines are recognized by Smith, he did not meet the objection: "The cosmopolitan character of the Smithian school is not to be sought in a denial of the existence of states, but rather in the fact that it applies its doctrines to all states and peoples equally, considering the state only according to its external boundaries — as a mere fragment of the whole mass of humanity — and ascribes the same validity to its laws everywhere."<sup>2</sup>

The Classicists forget that man, as a social being, is always

<sup>1</sup> Vol. I appeared only. Hildebrand promised others. While he lived many years and wrote other works, he never fulfilled this promise. I will not go so far as to say this shows inability on his part, as some have done, but simply observe that we do not have his complete thought and our judgment must contain some reserve.

<sup>2</sup> p. 28, note.



a child of civilization and a product of history, his wants, his character, his relations to goods and men are ever changing. Moreover, they are atomistic, making the individual the end of society, and holding that society itself is based upon an exchange contract, private advantage being regarded as the source and bond of the community. Then, too, they slight the moral problem of the human race, a course which leads to materialism. Even if immaterial things are recognized, they are not given the slightest effect upon economic doctrine. On the other hand, it is a merit of the Socialists that they have emphasized ethical factors.

Hildebrand believed that the present money economy is only transitional to a more complete stage of development which he called credit economy.

Karl Knies (1821-1898) was the most thorough and logical expositor of the historical method. His work, *Die politische Ökonomie vom Standpunkt der geschichtlichen Methode* (Political Economy from the Standpoint of the Historical Method), appeared in 1853, with a second edition containing some additions in 1881-1883. It was dedicated to Roscher. The title of the second edition, it is important to observe, was changed to read, "Political Economy from the Historical Standpoint."

Like his fellows, Knies attacks absolutism in theory. No economic laws can be declared absolutely final, for they concern points in a "constantly unfolding evolution," and can do no more than reflect a progressive manifestation of the truth. "The truth of all theories which have their foundation in empirical life rests upon concrete hypotheses. Relativity in the validity of their conclusions or judgments is a necessary result of the circumstance that those hypotheses do not remain identical nor occur constantly in all times, places, and circumstances."<sup>1</sup> No complete parallelism between the past and the present exists. Knies dwells upon the fact that the concept of private property has been a changing one, and that self-interest often conflicts

<sup>1</sup> 1st ed., p. 286.

with the social welfare. And he calls attention to the fact that various ideas as to what kinds of labor are productive have prevailed. Valuations themselves rest upon such shifting hypotheses. He shows in some detail the circumstances which have given rise to the various kinds of economic thought, developing the idea of relativity between economy and economics. He believes in a certain relationship between the industrial stage and the development of the science.

The next question is, what method shall be followed in each case? By method Knies means the manner in which fundamental facts are gained, demonstration is made valid, and conclusions established. The method applicable in any scientific discipline stands in the closest relation to the character of the science; therefore, progress in the science affects the method, and *vice versa*. Knies criticizes Roscher for the unusual and unscientific way in which he uses the term, "historical method," stating that Roscher devotes his attention to the exposition of historical material, method meaning to him merely a general point of view. A beautiful and fruitful field is opened alongside of political economy, but economic doctrines remain uncorrected.<sup>1</sup> The chief problem remains, which is to establish the causal connection between ever-changing phenomena. When the question concerns phenomena, and the laws of phenomena, in which likeness and difference appear, Knies says that we cannot expect to establish identities, but only analogies: "Only laws of analogy can be won, not laws of absolutely equal causation."<sup>2</sup> We are concerned with clarifying the regularly occurring analogies in economic phenomena. In this connection Roscher is again criticized for believing that a comparison of historical conditions which are merely similar, not identical, will lead to the establishment of laws of cause and effect.

Knies shows a usual tendency of the German Historical School by differentiating natural and social phenomena and by laying strong emphasis upon the modern importance of

<sup>1</sup> p. 32.

<sup>2</sup> p. 346.

social institutions in connection with the distribution problem.

The foregoing economists had no idea of a revolution in economics, and were by no means averse to theory and deduction, as the character of their work shows. As much has already been indicated concerning Roscher; and Knies wrote acute theoretical works on money and credit, telegraphs, railway transportation, and statistics. In these books there is no one-sided application of historical-descriptive methods. Rather one wonders if, after all, there is much difference between the methods of the older members of the Historical School and those of the men they criticize; and no little misunderstanding has arisen on this very point.

Knies, it will be remembered, changed the title of his work to read "from the historical standpoint" instead of "from the standpoint of the historical method." This he did to disarm just such criticism as still follows the school, and to show that he advocated no exclusive, one-sided method. In the new edition he wrote: "Taken in the true methodological sense, therefore, the designation, 'historical method of Political Economy,' would be unreservedly permissible only if historical investigation were to be recognized as the sole task of the science. Though we may strongly desire to refer to history and stand upon it in a well-considered way, yet we must never on that account allow to pass unrecognized the difference between economic history and political economy, nor that between the special tasks of the historian and the economist."<sup>1</sup>

As a matter of fact, the older group of the German Historical School stood first for a criticism and attack upon the narrow, error-breeding abstractions of the Classical School; and secondly, and positively, for a theory of evolution and for a spirit of free and full investigation.<sup>2</sup>

<sup>1</sup> Introduction, p. vii.

<sup>2</sup> The spirit of the group appears in the following quotation. Speaking of unrealism Knies said: "The difference is that the idealists demand conditions which we, according to the known and knowable fundamentals of the real and personal conditions in economic life, must designate as impossible; and that, in conflict

Roscher believed that by the study of history we can find a "firm island of scientific truth which may be accepted in the same manner as the adherents of different systems of medicine all admit the teaching of mathematical physics." He believed that there are general principles or laws, only they are to be applied to particular cases with the aid of statistics of local conditions.<sup>1</sup> Knies denied, not that any laws exist, but that there are laws like those of the external universe, *e.g.* physics and astronomy. This group will be remembered as standing for a new spirit and a fresh point of view. It cannot be maintained that their effect was merely negative, for in America and England and Italy and France the stimulus of their thought was a virtual emancipation, and produced profound results.

Closely affiliated with the older Historical School were the German economists, Schaeffle, Kautz, and Schüz.

**The Younger or More Positive Group.** — In the course of a few years, another group of thinkers appeared, however, and determined to apply the historical method, as they conceived it, in a thoroughgoing way to concrete studies. They even refused to recognize a difference between the purposes and methods of economic theory and economic history. Chief of these was Gustav Schmoller, at the end of the nineteenth century one of Germany's leading economists. In 1895 Schmoller wrote: "The older historical political economy has repeatedly desired to turn too quickly to account the lessons of universal history; we are now aware that laborious inquiries into the details of economic history can alone supply the right basis for the study of history in its economic and socio-political aspect, and for the satisfactory empirical establishment of national economic theory."<sup>2</sup>

with the content of life, they wish to make their absolutely complete conditions stationary, while we . . . proceed from and upon the ground of positive results and with means the reality of whose existence is confirmed by experience: we can point to goals which we view like the forms of the present which are already attained as points in a constantly unfolding evolution." (*Pol. Oek.*, 2d ed., pp. 42 f.)

<sup>1</sup> It is worth while recalling that L. Cossa was a disciple of Roscher and Cossa's sympathetic stand toward classical doctrines is well known.

<sup>2</sup> *Handwörterbuch der Staatswissenschaften*, article on "Volkswirtschaft," § 9.

Y In these words the difference between the two groups is suggested, and also, perhaps, a certain degree of impatience with the older group for not following the inductive method to such lengths as the members of the younger group in their various ways desired.

To get the setting for Schmoller's work it is necessary to turn aside for a moment to note a new development in German economic thought.

Beginning about 1863, Germany was powerfully shaken by a social agitation which brought out the younger group and gave the whole historical movement a new prominence. In 1872 the now famous *Verein für Sozial Politik* was founded.<sup>1</sup> This society was based upon the recognition of a social problem, and stood for participation in political activity for social reform. It gave rise to much controversy, and brought new life and purpose to the historical economists.<sup>1</sup> At this time, however, they became confused with these advocates of social reform—sometimes called "socialists of the chair." The movement was thus a broad one, embracing most of those in revolt against the Classical School. In it were those who advocated the inductive method, those who emphasized ethical factors, and the adherents of realism. From among these different phases of the movement, however closely associated they may be, the idea of the historical method, as such, must be kept distinct.

Schmoller, now deceased, was born in 1838, became professor at the University of Berlin, and was active in the *Verein*. He saw in economic history and statistics the means for establishing a methodically complete empiricism. By this means alone could the foundation for a concrete theory of political economy be derived. The deductive method was not entirely excluded by Schmoller,—though at first he gave it a very small place,—but was rejected only in so far as it is connected with abstraction. As his thought matured, Schmoller came to hold that the proper

<sup>1</sup> Cf. Schmoller, *Ueber einige Grundfragen des Rechts und der Volkswirtschaft*, 1875. See also below, pp. 577-578.

method is a combination of induction from historical and statistical observation with deduction from the known properties of human nature. Natural environment, ethnology, and psychology were all appealed to; and in his last and most important work, *Grundriss der Allgemeinen Volkswirtschaftslehre* (1901-1904), these factors play an even larger part than purely historical observation. All these things are the factors which determine the industrial situation at any given time. Psychology, for instance, must be introduced in order to explain motives; while the facts of climate and geological structure place limitations. Certainly Schmoller's later writings show slight evidence of Hegelianism, his idea of evolution being more nearly like Darwin's.

Meanwhile Bücher in his *Entstehung der Volkswirtschaft* (1893) has taken a point of view similar to Bagehot's in England,<sup>1</sup> holding that while the historical method leads to a theory of the laws of economic evolution, the deductive methods of the Classical School are valid for developing the laws of a modern economy. Like Bagehot he would stress the modernness of economics, saying it is a thing of the present complex money-and-division-of-labor economy. Here abstraction and deduction may be necessary.

Schäffle (1831-1904), although he perhaps belongs in the older group, may also be mentioned as an important recent economist who had affinities with the school. A notorious characteristic of his is an overextension of the analogy between the body politic and a physical organism.<sup>2</sup> He stands for a large amount of government intervention, and is rather sympathetic toward Socialism.<sup>3</sup> Nor among the later adherents of the school should Brentano and Held be forgotten; while Conrad, Miaskowski, Nasse, Schanz, and Schönberg are among those who combine the historical method with a considerable use of deduction.

<sup>1</sup> See above, p. 475.

<sup>2</sup> *Bau und Leben des sozialen Körpers*, 1875-1878, 4 vols. See *Econ. Jr.*, xiv, 138, for convenient biographical and bibliographical note.

<sup>3</sup> *Die Quintessenz des Sozialismus*, 1875. Schäffle grew more critical of socialism and is not to be thought of as having been a socialist himself.

Schmoller in Germany, however, and Ashley in England, are the clearest representatives of the younger group, and Emile de Laveleye may be considered as a French representative; the others are mentioned not as forming a compact or closely related group, but as displaying similar tendencies in method.

At the present time the notable tendencies of the Historical School have been summed up by a prominent English historical economist of the younger group in a way similar to the following:—<sup>1</sup>

1. But small space is given to the general principles or theory (the *Grundlegung*), the importance of the historical study which usually follows being emphasized.

2. Relatively slight attention is given to the theory of value, especially to its subjective aspects.

3. Individualism and the principle of self-interest are greatly limited by the introduction of general anthropological and historico-philosophical considerations. Under the last head would be included their ideas concerning the relativity of theories and institutions, the importance of ethics, social institutions, etc.

The general tendency is now toward a partial return from the extreme reaction of the later historical movement, and toward a better-balanced method, and, in a word, toward a recognition of the fact that each method has its place. This change is seen in Schmoller's thought and is expressed in Bücher's position.

**Summary and Critical Estimate.**—From the standpoint of pure theory, the largely negative character of the earlier group of the German Historical School, and the weakness of the method advocated by the later group, are evidenced by the fact that after two decades or more the founders of the school had accomplished directly little beyond the preliminaries of the introduction of systematic reforms; and,

<sup>1</sup> See Ashley's article on "Historical School" in Palgrave's *Dictionary of Political Economy*. Professor Ashley has been one of the most extreme members of the historical school.

indeed, aside from their valuable studies in industrial history, the work of the later and — for a time, at least — more radical group was polemical and speculative. Directly, it led to results which were largely negative. Indirectly, however, as has already been emphasized, the thought of the school has been one of the great liberating and stimulating forces of the century, bringing positive results in the economic theory of all the advanced nations.

The reasons for this result are not far to seek: strictly interpreted, the method itself has inherent weakness; it is, in fact, itself one-sided. The adoption of the exclusive use of the historical method as urged by the more radical group would devitalize the science by depriving generalizations of their validity. As Hasbach and others have pointed out,<sup>1</sup> a purely inductive method — one according to which deductions are made only from premises derived from observation — will not suffice for a science of exchange among men. Suppose that we make a long series of observations concerning a phenomenon, and as a result formulate a rule; suppose further, that we verify this rule; is there not still the question, what is the cause? The historical law must ever be an empirical one based on an ever incomplete experience.<sup>2</sup>

It is the recognition of this fact that accounts for the general tendency to deny the validity of economic laws which characterizes the school. Even Ingram criticizes it on this score, showing that there may be laws in change and development, and “that there exist between the several social elements such relations as make the change of one element involve or determine the change of another.”<sup>3</sup>

In more positive criticism, the Historical School — at least that of Schmoller and Ashley — has sometimes overlooked the existence of the power to judge of causes from

<sup>1</sup> See article by Lexis in *Die Entwicklung d. deutschen Volkswirtschaftslehre*, I, i, 38 (Leipzig, 1908).

<sup>2</sup> Menger in *Untersuchungen über die Methode der Sozialwissenschaften*, 1883, made a most acute criticism along this line.

<sup>3</sup> *History of Political Economy*, p. 205. This the older historical group, though differing as to the nature of the relations, would not deny.



a knowledge of the motives of men and the action of environment. There are certain psychical qualities, certain physical laws, and perhaps certain tendencies in social organization, which may be taken as fundamental. These are like the axioms of geometry. By referring to them, economics may become more than a branch of historical learning, for thus one may determine the causes or sources of the observed regularities, and so allow economics to partake of a scientific character.

In fine, both inductive and deductive methods are needed.<sup>1</sup> The words of an eminent adherent of the latter method state the truth with admirable moderation: this method "recognizes the utility — for technical reasons — of tracing causal connections, not only from special to general, but also, *for the sake of experiment*, from general to special. It thereby often discovers links in the chain of causes which were, of course, present in the complex, empirical facts, but which were there so deeply inwrought that they would hardly, if ever, have been discovered by a purely inductive method."<sup>2</sup>

The service of the Historical School has been to counteract an undoubtedly overabstract tendency. In applying the principle of least sacrifice some economists had forgotten that what one people or time considers a gain, another may look upon with indifference or regard as a loss. So it is also with the "at any given stage of the industrial arts" qualification of the "law" of diminishing returns. The school has broadened the conception of human motives by emphasizing the interaction of non-economic with economic motives. It has clearly shown the fallacy of extreme individualism and *laissez faire*. Finally, the followers of the Historical School are to be thanked for valuable studies in economic history, — studies from which data have been obtained for verifying and correcting the theory of the Classicists.

<sup>1</sup> See above, pp. 17 f.

<sup>2</sup> Böhm-Bawerk, "Method in Political Economy," *Ann. Amer. Acad.*, I, 263. (Writer's italics.)

### 3. THE LOGIC

THE following chapters deal with some developments in the history of economic thought which concern the logic of particular points made in the economic theory of Smith and his followers. The writers to be discussed are notable not so much for their emphasis of a different underlying system of philosophy and ethics or for the adoption of new methods, as for their direct criticism of the economic doctrines of the Classical School.

It is difficult to classify these thinkers and to select the most representative and important. Their criticisms vary in depth and essentiality and point of view. Now it is the rent doctrine, now free trade; now the theory of wages, and again that of value. From one point of view, they might be grouped accordingly as they criticize from an ethical or non-ethical standpoint. Or the subjective element might be made the basis for classification. But a simpler course has been taken in merely discussing a few of the more notable and typical critics and theories.

Not a few of the important criticisms of the class now to be discussed have been mentioned as incidental to the thought of those whose opposition proceeded from a philosophical or methodological standpoint. Lauderdale and Rae, for illustration, criticized Adam Smith's discussion of division of labor and its advantages: and Sismondi, Müller, and others, pointed out the evils which flowed from such division. Then Sismondi began a notable series of criticisms concerning income and consumption. Friedrich List attacked the labor theory of value, — as did Bastiat and Carey, — and

proposed to amend the Classical doctrine of capital by including immaterial wealth, a proposition in which Say and others had preceded him. Senior was a notable critic of the Ricardian theory of value, and censured the economists for lack of precision in defining their field and terms. Jones, von Thünen, Carey, and Rodbertus, in their several ways, subjected the Ricardian theory of rent to adverse criticism; the various members of what might be called the concrete-historical group in England denied the validity of the Ricardian doctrine concerning the relation between wages and profits; and the German Historical School, along with others, introduced further criticism by broadening the treatment of economic concepts and motives. In fact, almost a volume might be written describing and analyzing the bearing of the historical method upon economic theory, largely by way of modifying the premises. This school, too, together with such predecessors as Sismondi and Müller, called attention to the element of friction and delay in the working of the economic "laws" of the Classicists. The Malthusian principle of population, implied in Smith's thought and accepted by Ricardo and Mill, is perhaps the most criticized theory which has become part of economics. On the one hand, the optimists assailed it; numerous non-optimistic critics found this or that particular fault with it, on the other. All this leaves unmentioned, too, the criticism involved in such isolated points as Senior's abstinence theory of interest, Lassalle's idea of conjuncture, and the like.

## CHAPTER XXVII

### LAUDERDALE AND HERMANN: EARLY CRITICISM OF THE THEORY OF CAPITAL, PROFITS, AND VALUE

THE theories of Adam Smith and Ricardo did not clearly set forth the nature and function of capital as an independent factor of production, and accordingly contained no clear-cut and distinct analysis of "profits." They held to an objective cost theory of value in which labor, though not the sole element, was overemphasized. Naturally, too, consumption received scant attention. Two groups of criticism, then, are suggested: on the one hand the theory of capital and income needed development; on the other, there was need for a critical examination of value theory which should bring the subjective factors into due prominence. Criticisms along these lines were essayed by Lauderdale, who has already been mentioned in another connection, and the German economist and statistician, Hermann. Naturally, certain corollaries of the theories attacked were also open to objections, some of which are set forth in this chapter.

#### **Lauderdale's Criticism of the Theory of Capital and Profits and his Doctrines of Consumption and Value.<sup>1</sup>—**

*Capital and Profits.*—Lauderdale at once takes Smith to task for his treatment of capital, his point being that that factor had not been given due importance as a distinct element in production. Of his own work he says: "Land, Labor, and Capital are separately treated of as the sources of wealth;—an opinion which, though it has been announced by some, and hinted at by others, does not seem to have made on any author so strong an impression as to

<sup>1</sup> See also above, pp. 348-350.

be uniformly adhered to in the course of his reasonings." <sup>1</sup> Capital, he argues, is productive in itself, its services being twofold, namely, to economize labor in producing the results already obtainable and to make the production of new results possible. Accordingly, the profit on capital arises either from its supplanting a portion of labor which would otherwise be performed by the hand of man, or from its performing a portion of labor which is beyond the reach of the personal exertion of man. <sup>2</sup>

Now this conclusion is most important; for the notion that capital operates merely by putting labor in motion and adding to its powers implies that industry and the employment of labor are limited by capital. The true analysis, however, suggests the inference, that a country cannot be benefited by the possession of a greater portion of capital than can be employed in performing and supplanting labor, in the production and formation of those things for which there exists a demand. <sup>3</sup> And he goes on to argue against parsimony as creating a more than requisite quantity of capital. This is not only a radically different conception of capital, its function and income, from that found in Smith's thought; but also its bearing upon the wages-fund doctrine which soon gained such prominence, is apparent. With Lauderdale's theory that doctrine would have been impossible.

*Value.* — In accord with Lauderdale's general emphasis of productivity and demand, his theory of value shows some development toward a proper correlation of utility and cost. Value, he says, is the necessary characteristic of individual riches. The essentials to its existence are: usefulness and pleasure to man, together with a certain degree of scarcity. The following illustrative passage makes his idea clear: —

"Water, it has been observed, is one of the things most useful to man, yet it seldom possesses any value; and the reason of this is

<sup>1</sup> *Inquiry into the Nature and Origin of Public Wealth* (1804), p. 10.

<sup>2</sup> *Ibid.*, pp. 161, 203.

<sup>3</sup> *Ibid.*, p. 204. Note the conception of an absolutely predetermined demand and of the possibility of general overproduction which is implied. Cf. above, pp. 350, 360.

evident: it rarely occurs that to its quality of utility is added the circumstance of existing in scarcity; but if in the course of a siege, or a sea-voyage, it becomes scarce, it instantly acquires value; and its value is subject to the same rule of variation as that of other commodities." <sup>1</sup>

Lauderdale criticizes Petty, Harris, and Smith for seeking an absolute standard of value. Moreover, he quotes from the *Wealth of Nations* to prove Smith's inconsistency in making labor the measure of value, showing that it is stated or implied at various points in that work that labor differs in value at different times and at different places.<sup>2</sup> Though Smith's use of the word "price" instead of "value" at points saves him, yet his not infrequent confusion of value in use with value in exchange lets Lauderdale's shaft hit.

*Consumption.* — Lauderdale was a pioneer in the discussion of the economic significance of consumption, pointing out the relation of the subject to value, and dwelling upon the effects of varying degrees of elasticity in demand.<sup>3</sup> To understand riches (individual wealth) and their variation, he says, we must study the interrelations between demand and supply, and all the indirect effects of changes in value of one good upon another. As the tastes of individuals differ, so men will differ in the extent to which they will go in renouncing a commodity when its supply is diminished; while, in turn, the prices of different commodities will vary according to the degree in which they seem necessary. Changes in demand are discussed in a similar fashion, something of the importance of necessity, habit, and taste being indicated. Then Lauderdale examines the effects of changes in supply and demand upon the order of consumption, using meat, wine, and mustard to illustrate different elasticities in demand. These commodities would be affected very differently: the change referred to "would have very different effects in altering the proportions betwixt the quantity and the demand of each of these articles, so it must

<sup>1</sup> *Inquiry into the Nature and Origin of Public Wealth* (1804), pp. 15-16.

<sup>2</sup> *Ibid.*, p. 30.

<sup>3</sup> See *ibid.*, pp. 66, 85 f., and elsewhere.

alter, in a very different ratio, the value of a given quantity of each." Some undesirable results of an unequal distribution of wealth are also mentioned.

**The Theories of Hermann and Other German Economists, chiefly concerning Capital and Undertakers' Gains.** — From among the numerous German economists of the early nineteenth century, von Thünen and Hermann stand out clearly as the two most acute and original theorists. Of the two thinkers, von Thünen was undoubtedly the more original, but Hermann's work was based upon a far wider reading,<sup>1</sup> and, being in closer touch with the current of economic thought, appears to have exerted a greater influence upon his contemporaries. This relative result was doubtless due in part to the clear, concise style in which Hermann wrote, and, perhaps, to the absence of mathematical formulæ.

In some respects, Hermann was a follower of Adam Smith, and he generally begins his discussions with a statement of Smith's views on the point involved; but his philosophy and theories of value and distribution are so at variance with those of the *Wealth of Nations* that he must be classed as a critic, while, his criticism being non-ethical and directed against Smith's logic on fundamental points, he hardly falls among those who opposed the philosophical and ethical system.

Friedrich Benedikt Wilhelm von Hermann (1795–1868) published his chief work, *Staatswirthschaftliche Untersuchungen* (Investigations in Political Economy), in 1832.<sup>2</sup> In his preface he sounds a note of criticism of existing economics, and presents a most interesting statement of the weak points in the science. In general, he warns his readers against the notion that it is a complete and perfect science.

<sup>1</sup> The following are some of the writers to whom Hermann refers: Aristotle, Hegel, Physiocrats, Steuart, Smith, Malthus, Lauderdale, Sismondi, Ricardo, M'Culloch, Jakob, Hufeland, Sartorius, Nebenius, Müller, Storch, Lotz, Rau, von Thünen, Read, James Mill. The careful study of and influence by James Steuart and Lauderdale are especially interesting to the English reader.

<sup>2</sup> Revised and enlarged edition in 1870. The following references in the text are to the pages of the first edition.

It is too closely related to life, with its continual change, for that. In fact, he states that economists had arbitrarily limited their field by excluding certain objects.<sup>1</sup> Again, in accord with a common German idea, he argues that to conclude that individual interest always leads to public advantage goes too far.

The more particular shortcomings, as Hermann sees them, are the following. The lines of demarcation between the several classes of society had not been clearly drawn, and the faulty distinction between productive and non-productive occupations is especially pointed out as an illustration of this weakness. The theory of price seemed to him to be full of defects: the factors which enter into the determination of a particular price had not been sharply and completely indicated; neither had the treatment of the equalization of prices, or comparative price, been adequate; the distinction between exchange value and price, he refers to as "unsatisfactory"; and he states that there was need of an analysis of price into its ultimate elements, so that the cost of the finished product would be traced back through its component materials to wages and profits. Hermann also complains of the narrow interpretation of the concepts, "goods" and "income." Say and Sismondi, he says, had made valuable suggestions, but had not carried them out consistently. Finally, consumption is mentioned. Here numerous writers had touched upon the abuse of the current interpretation of income; but they had failed to develop their ideas or to discuss the effects of consumption upon exchange and economics in general, as their varying treatment of such problems as are presented by absentee landlordism and parsimony, manifests.

Aside from its intrinsic interests, as a statement of the case against the political economy of the day, the foregoing criticism is of value in that it outlines the contents of Hermann's book fairly well. Only the part dealing with capital and profits has been withheld, in order that it may serve as

<sup>1</sup> Cf. below, p. 507.



an introduction to the discussion of Hermann's theories concerning these subjects.

Passing over his theory of value for the moment, the point to be stressed in Hermann's thought is the theory of capital and the correlated criticisms of the Classical wages and rent theories.

*Capital.* — In his preface, Hermann states that previous discussions of capital had been deficient in their treatment of its origin, nature, classification, and working; while the existing theories of profits were marked by shortcomings in that they did not explain with sufficient accuracy the determination of that share in distribution nor its relation to wages. It may be inferred from his remarks that he thought that Ricardo and M'Culloch had done the best in this regard, but that the former was excessively abstract and the latter was even more so. Smith's conception of capital was good, but had not been carried out consistently. Most writers had followed Smith; though Sartorius and Hufeland had shown some independence, both of these writers distinguishing between the usability of a good as capital and its capacity to satisfy wants directly. The latter had made capital embrace all goods which *can* be used for production, including those which for the moment await productive application (p. 47).

But, to hasten to the point, Hermann tells us that capital rightly means all sources of income which endure and have exchange value. Thus he approaches the determination of the capital concept from the standpoint of income, and income in the sense of utility (57). Smith, he says, had made income mean the excess of product over cost, or net income. But income is really the use of property; and "production, in relation to the yield of capital for producers, is nothing but an exchange, through the agency of capital, of the direct usufruct of one property owner's goods for a more convenient form" (57). Accordingly, all houses and lands are to be included in capital, so long as they are durable sources of utility income and have exchange value.

Hermann's classification of these economic categories which are related to capital is as follows (59):—

Property:—

I. Immediate consumption goods.

II. *Capital*:—

1. Use capital (yielding satisfactions directly).

2. Industrial capital (yielding satisfactions indirectly).

A. Loan Capital.

B. Production capital.

(a) Fixed.

(b) Circulating.

Thus he follows Say and Ganilh in distinguishing a so-called "use capital," or what we would to-day rather call durable consumer's goods, the category being illustrated by such public property as highways, gardens, and buildings. "Immaterial capital" is also admitted, consisting of trade secrets, special privileges, etc. "Personal capital," however, he rejects on the grounds that it cannot be exchanged, is not a sufficiently durable source of income, and that the motives which lead to the production and education of men are different from those which obtain in the production of goods.

Manifestly there is nothing in Hermann's definition of capital to prevent the inclusion of land, and it is in this point that its peculiarity is most sharply apparent. Land being a good which endures and yields an income, is capital (48). To the usual arguments in favor of a distinction between the two factors, Hermann replies that cost is not an essential aspect of capital, the fundamental thing being a stock of goods which furthers production; and this is just as true of land as any other agent. Moreover, to obtain the fruits of the earth, labor must be expended, while the operation of fixed capital depends upon the forces of nature, so that there appears to be no fundamental difference on that score (50). He believes, too, that the income on improvements is inseparably bound up with that from the land.

Against an idea sometimes expressed by Smith and others, Hermann argues that land is not a monopoly, but merely exists in scarcity like fixed capital (153). This early economist, then, anticipates a tendency which has recently threatened to divide economists in the United States.

It remains to be observed that Hermann clearly expressed the idea of capital as an abstract fund of wealth; for he says that above all one must distinguish the object in which a capital is expressed from the capital itself (335-336). The latter goes on undiminished, regardless of the consumption of its products; machines are used up, but not necessarily capital, for normally the value of the product yields a replacement fund (337). Even irregular losses are shifted from capital to income by means of insurance. Here, again, theories which have gained some prominence of late years are anticipated.<sup>1</sup>

*Rent and Wages.* — Hermann's notion of capital led him into conflict with several ideas held by Smith and other members of the Classical School. For one thing, it was inconsistent with the Ricardian doctrine of rent. Like others who have taken the same course, he regarded rent as a percentage of the value of the land, which, once the land is sold, obeys the laws of interest. But perhaps more noteworthy is his criticism of the wages-fund theory.

The downfall of the wages-fund theory is the subject of the next chapter. It came in the seventies. But more than forty years earlier, this German economist, in a clear, concise fashion, advanced those arguments which were to overthrow it. Some statements made by Smith, and the doctrine of M'Culloch, and Rau, says Hermann, make capital the source of wages and the wage rate depend upon the proportion of population to capital. But, even granting that wages depend upon such a proportion to circulating capital, nothing follows as to capital in general; a greater percentage might be invested in fixed capital (281). Again, the number of those laborers who furnish personal services and are paid

<sup>1</sup> Cf. below, p. 622.

directly from income, is too great to be overlooked. As a matter of fact, wages are paid out of the value of the product. The undertaker buys labor, not to consume it, but to sell what it produces. From the income of the consumer, then, comes the true compensation of the laborer's services. The growth of the aggregate capital, however, does have an indirect influence in that it causes a demand for more products.

Hermann resents the idea that the capitalist-undertaker, or enterpriser, nourishes the labor class. Rather, he simply uses labor to procure a more advantageous sale of part of his capital. Labor and capital mutually facilitate the transformation of their separate services into forms more suitable to each, and stand on equal terms as to economic function. In fact it was a fundamental error of Smith's that he at points considered capital merely as the maintenance of laborers. Hermann argues that this is false as far as fixed capital is concerned; and so much of circulating capital as is expended upon material, buys not merely labor, but uses or utility (*Nutzungen*).

*Undertakers' Gains.* — After his theory of capital and the criticisms of rent and wages doctrines which flowed from it, the next great point in Hermann's theory is his treatment of undertakers' gains, that is, the income received by the entrepreneur as such.

At this point is found an interesting illustration of the close relation between industrial environment and economic thought. In England, the existence of large commercial and industrial organizations, and especially joint-stock concerns, had familiarized Adam Smith and his followers with the idea of profits as a return upon capital considered as a distinct factor of production. Profits, to these writers generally, meant the revenue of capital (interest) plus a half concealed something for management, though Senior's ideas differed somewhat from the common notion. But in Germany, industrial conditions were not so developed. Industry was generally carried on with small-scale units, and the

handicraftsman who used his own capital and managed his own establishment was the prevalent manufacturer. Agriculture, too, was largely in the hands of peasant proprietors. Thus the function of the business undertaker — as the Germans called the entrepreneur or enterpriser — was relatively more distinct than in England, while there was less income upon invested capital, — capital dissociated from management by its owner. Incomes consisted more largely of satisfactions or uses derived directly from products. Thus it would have been natural for German thinkers to emphasize the function and income of the undertaker, and that is what they did.

But meanwhile the English doctrines with their emphasis of capital had penetrated German thought, so that interest could not be slighted. The result was a rather well-rounded theory of profits, which, in its addition of a clear-cut idea of the undertaker's gain to that of interest on capital, amounted to a contribution to economic theory. Indeed, in these early German discussions over the functions and income of undertakers may be found many of the ideas that are now common in the debates concerning the nature of profits. It will be observed that the idea, common among French theorists, that profits are the wages of management of the entrepreneur, would, in so far as it influenced German thought,<sup>1</sup> produce a result similar to that caused by this environmental condition.

Hufeland was one of the earliest writers to show the German tendency<sup>2</sup> toward the separation of "profits" into interest and undertakers' gains, and the analysis of the business undertaker's functions. He made undertakers' gains consist partly of compensation for risk, and partly of a rent for the undertaker's talents and capabilities. And Rau (1826) emphasized the same point, regarding undertakers' gains as a peculiar income springing from the inner relation between capital and labor, in which the shares of both these sources cannot be separated.

<sup>1</sup> Lotz, Jakob, Nebenius.

<sup>2</sup> *Neue Grundlegung der Staatswirthschaftskunst*, Vol. I, 1807.

Hermann made the subject clearer. Approaching the problem from the point of view of income, he reasoned (204) that the business undertaker's proper income is a reward for these services: (1) combining the factors of production, (2) evolving plans, (3) furnishing rare capacities and talents of supervision, (4) guaranteeing a fixed rate of interest while his own gain depended upon price fluctuations. And all these services, he added, vary with the amount of capital involved. The undertaker's gain, then, is the necessary reward for these services, cares, and risks. On the one hand, it is to be distinguished from the wages of labor, the compensation for exertion of a small-scale undertaker at some trade; on the other hand, the fourth service is not to be confused with a compensation for risk. Such a compensation is not income at all: it is capital, and must be saved against losses. The amount of the undertaker's gain is determined by demand and supply as to capital (208). The quantity of capital which owners of capital do not themselves wish to employ makes the demand for the business undertaker's services, while the number of those who seek to turn capital to productive employment fixes the supply. His services and income, then, being related to the amount of the capital involved, if a given gross profit (*Gewinn*) is assumed, the undertaker's gain varies with the amount of interest, the higher the interest the lower his gain, and *vice versa*. He may temporarily increase his gains by making such improvements or inventions as will lower costs; but when others learn of these improvements profits are lowered so as just to cover costs again.

The earlier period in the evolution of the German theory of undertakers' gains may be regarded as brought to a close in 1855 by Hans von Mangoldt (1824-1868) with his notable monograph on this subject, *Die Lehre vom Unternehmergewinn* (The Doctrine of Undertakers' Gains). He reviewed the previous theories and sought to prove the necessity of undertakers' gains on economic grounds. His own very eclectic theory made them consist of a premium for risk,

wages of management, undertakers' interest, and undertakers' "rent." The interest included was that arising from such capital as from its nature could not be lent or the undertaker's own capital; and the "rent" was a premium on undertaking ability. His work shows a leaning toward overminute analysis, not uncommon among the German theorists.

*Consumption and Value.*—In Chapter VIII, Hermann deals with the consumption of goods, showing evidences of Lauderdale's influence. He takes up the concept of consumption, order of consumption, consumption in relation to the employment of goods, in relation to the economy of the consumers, and in relation to political economy in general. The effects of parsimony, luxury, purchases abroad, etc., are dealt with; and several interesting charts or diagrams are presented to show the course of distribution among landowner, renter, laborer, and manufacturer, perhaps an echo of the Physiocratic analysis.

Hermann made an acute criticism of the labor-cost theory of value, his thought on this point being in several respects akin to that of his contemporary, Senior. Thus, he discusses more carefully than his predecessors the particular factors in value and price determination, analyzing demand and supply. Market price, under conditions of two-sided competition, is determined by demand and supply. Demand, however, depends upon three main factors: the use value of the desired commodity, the ability to pay of the one who desires it, — which factors form the subjective limits (*Gränze*) of price for the buyer, — and the alternative cost of its production, that is, the lowest cost of producing or acquiring the commodity in some other market (74). These things set an upper limit to prices. On the side of supply, there are the following forces: the cost of the commodity, alternative sale price, and the exchange value of the commodity in which price is expressed. Thus a lower limit is set. In dealing with the cost factor, the interaction of price changes and costs are discussed (82–88). Though consid-

ering that for reproducible commodities cost is decisive, he gives considerable weight to utility, and makes an important place for demand.

Hermann's general criticism of the labor-cost theory of value proceeds from the idea that the quantity of labor is not directly related to the quantity of value in the goods in whose production capital figures; "but only indirectly, and in so far as the laborers can, by means of an increase or decrease in the supply of labor, work against the variation in the value of their subsistence (wages?) with the rate of profit"<sup>1</sup> (131). Any good, to be a just measure of value, must vary in price directly with capital and labor, and to that end must contain both factors. Furthermore, he makes the five points which follow (133): (1) It is not true that goods which are not freely producible form a negligible quantity. Among them must be placed land, and through it most goods are affected. If a machine, even, contains labor, this is not to be thought of as passing into the product; only in so far as the machine is used up is it to be considered as raw material; on the whole, the labor and capital uses united in the machine are withdrawn from circulation and are merely bases of a usufruct. (2) The second and third points together form one argument. If labor cost determines value, and goods containing equal labor costs exchange on equal terms, it must follow, not merely that  $2x$  labor buys twice as much as  $x$  labor, but also that  $x$  labor always exchanges for  $x$  labor and no more. (3) *Assuming that the rate of profits is everywhere equal*, however, a product must exchange for more labor than it contains. That is, a day's labor of a farm hand, if exchanged for a pair of boots upon which a day's labor had been put by the shoemaker, tanners, etc., involved in its production, would be securing not only that day's labor, but a capital use. "But if  $n$  labor in product A exchanges for  $\frac{5}{4}n$  labor in product B, how can  $n$  labor in B at the same time buy  $\frac{5}{4}n$  in A?"<sup>2</sup> If it be

<sup>1</sup> I.e. contract the tendency of wages and profits to vary inversely.

<sup>2</sup> Cf. the argument on Ricardo's theory of profits, above, p. 272.



argued that materials and subsistence are necessary to make labor effective and that therefore past labor is used, it is thereby conceded that there is an element in production beyond labor, namely, the use of capital; and if the product has an exchange value in excess of the labor cost, its existence is explained by the fact that this capital use has not only value in use, but also exchange value. (4) If one overlooks or abstracts the capital-use element and regards it as equal in each product, labor may be thought of as determining; but, in fact, these uses are hardly alike in any two products. (5) In truth, Ricardo's rule, as expressed by M'Culloch, merely says  $A = A$  and does not explain the essence of exchange value.

**Conclusion.** — There is no need for a detailed criticism of the views of Lauderdale and Hermann. The former was in error in positing a limited demand based upon an assumed body of "needs"; and his notion of the function of capital, while containing a correction of Smith's ideas, was crude. Hermann's chief mistake appears to be an undue minimization of the differences that exist among productive agents. First, he too nearly overlooks the significance of the question of directness of yield, which results in the inclusion of durable consumers' goods in his classification of capital ("use capital"). But chiefly this minimization is seen in his denial of the significance of cost differences between the factors which are ordinarily called land and capital. He virtually omits any recognition of the importance of the fact that the supply of land in general is limited, and that this is especially true for any one of the different grades of land. His treatment of undertakers' gains, too, is open to the objection of including payments for diverse functions,<sup>1</sup> and he is sometimes classed as one of those who attempted to combine the English and French theories.

The more modern tendency would be to classify a part of the rewards given to the undertaker by Hermann as wages and part as "pure profits."

<sup>1</sup> Mangoldt's theory is open to a similar criticism.

The merits of the two writers have perhaps been sufficiently indicated.

The similarity between their views upon important points and the probable influence of the earlier author upon the other do not seem to have been recognized. Resemblances have been noted in the independent place given to capital, the subjective element in value, and the treatment of consumption. Both also point to the distinction between public and private wealth, Hermann undoubtedly following Lauderdale to some extent.

## CHAPTER XXVIII

### THE DOWNFALL OF THE WAGES-FUND THEORY

DURING the space of a generation, roughly covered by the lifetime of John Stuart Mill, that method of explaining wage rates known as the wages-fund theory played an important part in the history of economic thought. Some account of this theory has already been given.<sup>1</sup> Though a faint trace of it may be found in Turgot's writing, it is an English product, dating from the time when capital and a capitalist class began to be of prime importance in industry. Following the Industrial Revolution there came a certain new dependence of labor upon capital — as advances of subsistence and direct aid to production — which the economists soon exaggerated. Passages from Smith, Ricardo, Malthus,<sup>2</sup> and M'Culloch<sup>3</sup> might be cited, showing a suggestion of the idea that wages depend on a wages fund of circulating capital, the two writers last named being clear and definite in their expression of it. Senior, as already seen, puts it quite clearly, and is commonly named as the father of the theory. But it was James Mill who stated the theory in a hard and fast manner, and his son, John, fitted a somewhat modified form of the doctrine into his restatement of the Classical political economy. James Mill's statement of the doctrine was as follows: "Universally, then, we may affirm, other things remaining the same, that, if the ratio which capital and population bear to one another remains the same, wages will remain the same; if the ratio which capital bears to population increases, wages will rise. . . ." By capital,

<sup>1</sup> See above, pp. 270, 370, 317, 413.

<sup>2</sup> *Political Economy* (1836), p. 234.

<sup>3</sup> *Essay on Population* (1st ed.) pp. 305 ff.; *Political Economy*, p. 379.

Mill means the food, materials and instruments devoted to production.

Passing over some early criticism in Germany<sup>1</sup> which had no influence in England, that interesting series of assaults by English writers which sapped and overthrew this dogma may be taken up at once.

Perhaps the first came from Richard Jones, who wrote in 1831. At this time the theory had not gained such prominence as it later attained, and Jones was chiefly concerned with rent; therefore his treatment was too brief to give him the honor of a decisive attack. Jones' words were as follows: "We should take a very false view of the causes which regulate the amount of their [the laborers'] earnings, if we merely calculated the quantity of capital in existence at any given time, and then attempted to compute their share of it by a survey of their numbers."<sup>2</sup> For, as laborers "produce their own wages, all the circumstances which affect either their powers of production, or their share of the produce, must be taken into the estimate." These ideas were not expanded, and Jones' judgment appears to have had small effect.

A similar lack of effectiveness, so far as recognized and avowed, at least, attended the much more conclusive work of Francis D. Longe. Longe was an Oxford man and a lawyer, having been admitted to the bar in 1858. Through a connection with the Children's Employment Commission he became acquainted with the labor problem; in 1860 he published a treatise on the law of strikes; and this was followed, in 1866, by his pamphlet, *A Refutation of the Wages-fund Theory of Modern Political Economy*. He also published *A Critical Examination of Mr. George's "Progress and Poverty."*

Longe quotes passages from Mill and his follower, Fawcett, to show that they believe (1) in a definite fund destined for purchasing labor; (2) that the laborers form a

<sup>1</sup>Above, pp. 325, 439, 508.

<sup>2</sup> *Essay on the Distribution of Wealth*, Chap. VI.

group within which competition can distribute wages; and (3) that the factors controlling this distribution are demand and supply. These things Longe denies. Even as an abstract principle, he holds, the theory is false. The fallacy lies in treating the fund taken to represent demand for labor "as a sum which would all be spent in labor, notwithstanding the purchase of a part of the supply with a smaller portion of it than would represent the proper price of the part bought, as determined by the proportion between the whole supply and the money-measure of the original demand." Even if the circulating capital of a country were a certain per cent of its wealth, there is nothing to insure that the laborers *would* get all. And he shows that Mill falls into some confusion by using "demand," now as money demand, now as the quantity demanded. As to the existence of any such fund, Longe himself maintains that the mere psychical process of "destining" a thing cannot bring it to pass; it is demand in the sense of quantity of labor demanded that enters into the determination of the wage rate.

The whole fallacy, he states, lies in a confusion of two funds: one consisting of the goods available for maintaining laborers during the productive process; the other, of the amount of wealth available for purchasing the product.<sup>1</sup> The former may come from the laborers' own resources or be borrowed, as well as be advanced by the employer directly; the latter might come from consumers, from the goods produced, or from the employer. It is the latter "fund" alone that is significant.

Mr. Longe sent copies of his *Refutation* to Mill and Fawcett, but it provoked no reply.

Two years after the appearance of Longe's pamphlet, another concise refutation of the doctrine under consideration was published, being found in the *North British Review* for March, 1868.<sup>2</sup> The article is unsigned. Its writer begins

<sup>1</sup> *Essay on the Distribution of Wealth*, Chap. VI, p. 47.

<sup>2</sup> Pp. 5 ff.

by stating that the fallacy of the wages-fund theory lies in its premise that everything which decreases profits thereby decreases the means of paying wages. But he calls attention to the fact that manufacturers do not all receive a bare minimum profit, the inference being that wages could be increased by drawing upon surplus profits; and he goes on to argue that diminished profits may lead to an increase in saving and capital. For one thing, the fund for paying wages is mostly drawn from the price of the product, and is reinvested without conscious effort. "A manufacturer will generally work his mill or factory to the utmost so long as he does obtain a profit; he does not voluntarily set aside a certain sum for wages, diminishing and increasing that sum according to profits, but he employs as many men as he can, and pays them what he must." In the second place, there is another class of savings, coming from investors, and this increases when the interest rate decreases. In short, the wages fund may increase either through higher prices or through lower profits.

This unknown writer sums up his criticism in the following words. "Our argument is briefly this:—Wages, like the price of all other limited commodities, depend on a conflict between the desire for the commodity, and the reluctance to sell it. Anything affecting either feeling as to labor will alter wages. The total desire, measured by the total sum paid for wages, may increase in consequence of large profits leading men to wish for an extension of trade, but it may also increase owing to increased reluctance on the part of the labourers to sell, leading the purchasers of labour and produce, one or both, to pay more, lest they should lose wholly, or in part, their profits, or the enjoyment of the produce." The price of labor is ascertained through competition, which establishes an equilibrium; but this does not explain the forces which determine.

Next Cliffe Leslie deserves mention as taking up the cudgels against the wages-fund theory. His criticism appeared in two articles published during 1868 in *Fraser's*

*Magazine*, one in May and one in July.<sup>1</sup> He held that there were no funds destined to employment as wages. Capital can emigrate and be shifted from one employment to another. Capital may be substituted for labor. The unequal distribution of the aggregate available for wages, moreover, might make wages much lower than if that aggregate were equally shared by employers. Or through combination wages might be forced down. But even if there were such a fund, the question would still remain, what determines its amount?<sup>2</sup> Finally, competition does not work to distribute the "fund" among laborers so as to equalize wages and sacrifices.

Leslie was acquainted with Longe's pamphlet, and at one point refers to it in order to make a criticism.

Meanwhile Thornton had published some "Stray Chapters from a Forthcoming Work on Labor" in the *Fortnightly Review*. This was in the fall of 1867. Two years later the book itself appeared under the title, *On Labour*. In Book II, Chapter I, which contains his attack, Thornton begins with a criticism of the whole demand and supply theory of value as stated by the Classical economists. He then proceeds to argue his case against the wages-fund doctrine on this basis.

Fixity or definiteness, he says, is the essence of the supposed wages fund. But such a fund can have no existence save as an aggregate of individual funds, and such funds are far from fixed. Every employer, it is true, has a certain amount of money. But each may devote more or less to domestic expenditure, and so with buildings, materials, and labor. In any case, no one is bound to spend all he can upon labor. With such reasoning Thornton made short work of demolishing the idea of a definite sum of money set aside as a wages fund, — the idea commonly held at the time.

<sup>1</sup> *Land Systems and Industrial Economy*, pp. 87, 358 ff. It will be noted that articles by Thornton preceded these in course of time.

<sup>2</sup> In connection with this criticism Leslie mentions the article in the *North British Review*, March, 1868, p. 6.

On this particular matter Thornton is behind Longe in grasp and keenness of analysis. Moreover, as was pointed out by the American economist, Francis A. Walker, the fact that individuals have no definite funds does not necessarily prevent the existence of a social or statistical definiteness. Yet Thornton's attack took immediate effect. In the *Fortnightly Review* for May, 1869, Mill made his classic recantation, declaring that the wages-fund doctrine was a barrier to an important province of economic thought, — a "shadow which will vanish if we go boldly up to it."

It is not improbable that Mill had been gradually weakened by the attacks of Longe and Leslie, and by his sympathy with trade unions in their efforts to raise wages. His belief had been accepted from the Ricardians, including his father, and at a time when the labor problem was less imminent and his sympathies less aroused. Moreover, his ideas on demand and supply were rather superficial, and were not based upon a thorough analysis. Then, upon the appearance of his friend Thornton's book, he decided to give up publicly. Just why the gates of his belief were opened with such a rush is more or less of a mystery, and not a few have surmised a lack of candor in dealing with Longe. An opinion favorable to Mill, however, seems most just, nor has any proof of dishonesty on Thornton's part been advanced.<sup>1</sup>

The next step in the controversy was Cairnes' attempt to revive the wages-fund doctrine. In his *Leading Principles of Political Economy* (1874), he argued that wages are necessarily paid out of capital, and that, under given industrial conditions, total wages must bear a definite relation to total capital. His reasoning assumes that profits (interest and pure profits) have a tendency to a minimum.

Then came Francis A. Walker's attack, an attack which was more constructive and suggestive of the true relation between wages and capital than was the work of his prede-

<sup>1</sup> Cf. Walker, "The Wage-Fund Theory," *North American Review*, Vol. 120, pp. 94 ff. (1875). Walker's views were fully stated in *The Wages Question* (1876).



cessors; though, like his predecessors in criticism, he directed his assault upon the idea of a wages fund in the shape of money, not clearly distinguishing capital from product. "Given a certain body of labor employed," he asks, "what is it that determines the amount which the employer can afford to pay in wages? Is it the amount of capital at his command, or the value to be realized from that labor?" And his answer is, it is production which limits wages, and production is in its turn limited by consumption. Wages are ultimately paid out of the product of industry, and in so far as paid before the product is marketed capital merely advances the amount. In new countries, in fact, wages are mainly paid out of the product of current industry. Walker makes a second point in regard to the effect of the number of laborers. The sum of possible wages is far from being fixed without regard to the number of laborers. On the contrary, their number and efficiency form an important element, and an increase in labor supply may result in a more than proportionate increase in the aggregate of possible wages. It is folly to postulate "other things being equal," for this cannot be when population changes.

As finally formulated in his *Political Economy* (1883) Walker's case is as follows: (1) Wages are not always advanced out of capital, but in new countries such as the United States are often paid directly out of product. (2) Even if wages were always advanced out of capital, the ultimate payment comes from product; for laborers are hired for the sake of product and profits, not for the sake of getting rid of a fund. (3) The amount of wages is related to the industrial quality of the laborers. (4) The amount to be paid in wages cannot be irrespective of the numbers of the laboring class: (a) an increase in population may be attended by such improvements in "the division of labor and the union of forces in production" as to increase product and wages without any increase in capital; and (b) when returns from land diminish with increased population, wages fall because *per capita* production is diminished, even though

capital may be increased. Walker's argument is intimately related to his residual theory of wages which in turn depends upon his theory of profits (see below, page 613).

The final word in this stage of the discussion has been said by another American economist, Prof. F. W. Taussig. In his *Wages and Capital, an Examination of the Wages Fund Doctrine* (1896), Taussig presented a careful and accurate analysis of the relation of capital to wages, together with a history of the wages-fund discussion from its beginning to the close of the last century. His conclusion is that there is an element of truth in the wages-fund idea, and that to the extent that this is so, Walker's ideas are wrong.

The argument, briefly put, runs thus: Real wages being properly the subject under consideration, it is apparent that, in a division-of-labor economy, laborers — and others — are supported chiefly by the product of past labor; for the reward of present labor is enjoyable goods, which, for the most part, exist only as the result of a long period of production. In any but the shortest periods, then, the resources of a community exist in the form of capital from which income in the shape of consumable commodities immediately flows; while the hired laborers of our industrial system, being dependent for their money income on a bargain with capital owners, do draw their wages from a sort of wages fund. This does not mean, however, an unalterable relation between real capital and real wages, but that wage-earners get their money wages, and thus their share of real income, from what the capitalist class, including middlemen and bankers, find it profitable to turn over to them. Moreover, a limited degree of elasticity is allowed to wages by Professor Taussig's theory.

In a word, the significance of roundabout methods of production and our dependence upon past production for enjoyable goods are made clear.

The whole wages-fund episode in the history of economic theory, while it has led to fruitful discussion and a clearer understanding of the relation existing between wages and

capital, after all owes its existence chiefly to a confusion of thought. Perhaps springing from the industrial organization at the time common in England, the idea prevailed among economists that capital consists of money, or at least, consumers' goods in the hands of employers. This was the underlying notion of all those who took part in the controversy on this point, even down through Walker's day. A large part of capital goods was neglected, and its function in this connection left unanalyzed; while capital was mixed up with product or goods for consumption. The forces of demand and supply, as they operate in the evaluation of labor, were not carefully and fairly analyzed.

As long as this idea obtained, false notions concerning the interrelation of wages and profits (interest) could easily prevail. Capital was thought of as a "residual claimant" from an ill-defined wages-plus-profits aggregate. The downfall of the wages-fund theory meant a forward step not only in the theory of wages, but also in speculation on capital and interest.

Undoubtedly, too, in the long and widespread sway of the wages-fund doctrine is to be seen the influence of class bias. It served to emphasize the prime importance of capital in industry and defend it from increased taxation. It also furnished the capitalist class with a ready argument against strikes: the wages fund being a fixed amount, what one union gained would necessarily be at the expense of another.

This doctrine was closely related to the tendency toward pessimism which was so common in the English Classical School, and its abandonment by the leaders of the school is significant as indicating a more hopeful outlook. The downfall of the wages-fund theory opened up a greater place for human arrangements in the shape of social reform in distribution.

## VI. ATTEMPTS AT RECONSTRUCTION

THE two preceding chapters have concerned those criticisms of the dominant Classical economics which applied not so much to the philosophical basis or the method pursued as to the correctness of the reasoning — the logic. One further line of criticism of this last order remains for discussion; one which has been so ambitious, so sweeping, and, withal, so successful, that it is well to set it apart and call it an attempt at reconstruction.

At various points in the preceding pages, attention has been called to evidences that the significance of wants, utility, and the subjective side of value generally, did not pass unnoticed. All the time, indeed, though the fact was not appreciated, a leading point of difference in economic thought lay just here. But the dominant schools everywhere were little disposed to dwell upon subjective aspects, and psychology was slow in furnishing the basis for adequate analysis. Here, then, was an opportunity for reaction and even for a reconstruction of economic analysis.

Shortly after the opening of the second half of the nineteenth century, several factors combined to occasion this reaction. The Classical economics sank into some disrepute because of the narrowness and dogmatism which developed in it: it failed to adjust itself to times and places. One reason for this fact was its one-sided dependence upon material and objective considerations, which caused an almost continuous succession of opponents or critics to demand in one way or another that more attention be given to man's control over external forces of nature, to the significance of man-made institutions, and to the importance of the subjective side of value. Particularly effective were

the Historical School, with its criticism of the abstract absolutism of the exchange-value economics, and Socialism, with its doctrine of class struggle and its extreme labor-cost theory of value. Both schools were so extreme in their attacks that reaction was both invited and facilitated, but their criticisms were sufficiently well founded to necessitate improvement in the position occupied by the Classicists. Socialistic attacks with their illogical appeals to the Classical theory of value stimulated economic thought to a deeper analysis: Marx' theory needed recognition of the part played by utility for its refutation. Finally, the development of psycho-physics showed the way, — opened the door for progress.

About the middle of the century, a physiologist, E. H. Weber (1795–1878) gave to the world some investigations concerning the intensity and duration of sensations or mental facts.<sup>1</sup> His results were elaborated and expounded by Fechner in 1860 (*Elemente der Psycho-physik*), and have become known to every student of psychology as Weber's Law, or, sometimes, Fechner's Law. Observing that the greater the intensity of the original stimulus the greater must be the increase in stimulus in order to cause a perceptible difference in the resulting sensation, these investigators framed a principle as follows: In order that the intensity of a sensation may increase in arithmetical progression, the stimulus must increase in geometrical progression; or, to put it another way, within short periods, if the stimulus be continued in equal amounts, the intensity of a sensation is diminished. Such a principle, of course, necessitates a scale of excitation- or stimulus-values with minima and maxima of perceptibility.

Here, then, was the basis and the model for a law of diminishing utility. The principle suggests a scale of utilities, with an estimation of goods according to the intensity of the gratification-sensation of the last unit of consumption-stimulus.

<sup>1</sup> See Wagner's *Handwörterbuch der Physiologie*, 1842–1843, vol. III

The significance of the last or marginal unit of stimulus was apparent, and naturally suggested the way to make definite the vague concepts of total utility which had prevailed.

It seems impossible to say just how direct is the relation between this development in experimental psychology and the analysis of Jevons and the Austrian School; but here, as elsewhere, progress in one science gets "in the air" and soon influences others.

## CHAPTER XXIX

### **EARLIER DEVELOPMENTS IN THE MARGINAL UTILITY CONCEPT: GOSSEN, JEVONS, AND WALRAS**

THE development of the marginal-utility analysis in value theory is commonly associated with the names of Jevons and of the members of the Austrian School. But, both in the concept of the margin and in the emphasis of utility and demand, these men were anticipated. As is usually the case, there were forerunners.

I. **First Developments.** — Not to dwell upon such suggestions as may be found in the writings of Galiani, Barbon, and others,<sup>1</sup> the French writer, Condillac, must be especially mentioned both because of his clear statement and his considerable influence. Condillac stated that value depends upon wants, being less in the thing itself than in the estimate we form of it, and that it varies according to the intensity of wants and the supply of goods.<sup>2</sup>

Jeremy Bentham, famous in English jurisprudence and political philosophy, suggested the idea when he wrote: "The greater the quantity of the matter of property a man is already in possession of, the less is the quantity of happiness he receives by the addition of another quantity of the matter of property, to a given amount."<sup>3</sup>

Also noteworthy in this connection are the English writers

<sup>1</sup> Turgot, Genovesi, Bernouilli.

<sup>2</sup> *Le Commerce et le Gouvernement considérés relativement l'un à l'autre*, Paris, 1776. See p. 11 of ed. of 1803. "Now since the value of things is founded upon the want, it is natural that a more keenly felt want gives to things a greater value. . . . The value of things increases with scarcity and decreases with abundance. In abundance it could even decrease to nil. A superabundant good, for example, will be without value whenever one cannot make use of it, since then it will be quite useless."

<sup>3</sup> *Works*, IX, 18 (Edinburgh, 1843).

Craig, Longfield, and Lloyd. John Craig in 1821 developed the significance of utility in value determination in an original way, analyzing the utility of a good into different strata which come into play as supply is increased.<sup>1</sup> But Longfield (1833) had a clearer expression of the marginal idea as applied both to utility and cost: to him market price was "measured by that demand, which being of the least intensity yet leads to actual purchases."<sup>2</sup> In the following year, W. F. Lloyd published a most remarkable *Lecture on the Notion of Value*. Value, he reasoned, may be defined as the esteem in which an object is held. Although human wants are varied and no limit can be assigned to their development, yet, for any specific object, an increase in supply will bring satiety and value will vanish (p. 10). Lloyd says: "In its ultimate sense, value undoubtedly signifies a feeling of mind which shows itself always at the margin of separation between satisfied and unsatisfied wants."<sup>3</sup> The claim of this Englishman to the distinction of first clearly explaining value in terms of marginal utility seems strong.<sup>4</sup>

The German, Thomas, has often been overlooked in this connection. In his *Theorie des Verkehrs* (1841), however, he very clearly states the main idea of the modern subjective theories of value: Value depends on estimation, and for estimation there must be not only an object, but a subject who evaluates. Value depends upon the strength of desire, and

<sup>1</sup> *Remarks on Political Economy*, p. 4. "... if more is now to be disposed of, it must be to those who did not reckon its utility equivalent to its former costs. New purchasers indeed will appear in proportion to the reduction of price; because at every step of the decline it is brought down to the estimate which an additional number of persons had formed of its power of producing gratification, or, in other words, to their estimate of its value in use."

<sup>2</sup> *Lectures on Political Economy*, p. 113. On Longfield see Cannan, *History of Theories of Production and Distribution*, and Seligman, *Some Neglected British Economists*.

<sup>3</sup> pp. 12-16. Lloyd takes a now familiar illustration in the shape of a hungry man and successive ounces of bread, and clearly distinguishes "abstract" (total) utility from "special" (marginal) utility. He compares diminishing utility to the decreased pressure of a spiral spring as it uncoils!

<sup>4</sup> Lloyd appears to have been "discovered" in recent times by Professor T. S. Adams. See his article on "Index Numbers" in the *Journal of Political Economy*, December, 1901, p. 19.



price upon a comparison of the estimations put by the parties to an exchange upon their goods. He expresses the idea of a scale with upper and lower limits (*Grenzen*).<sup>1</sup> Thomas, however, seems not to have thought it necessary to enter into the minute psychological analysis characteristic of the modern marginal-utility thinkers.

Similar ideas were soon advanced quite independently by a French engineer named Dupuit.<sup>2</sup> He wrote that "goods have a utility not only for each consumer, but also for each want for the satisfaction of which they are employed"; and seems to have clearly grasped the concept of final or marginal utility.

Finally, Senior should also be mentioned as a forerunner; and Banfield and Jennings, to whom Jevons himself expressed indebtedness, should not be forgotten.

The first writer, however, who *developed* the ideas now under consideration, and centered a more or less comprehensive system of economic theory in them, was Gossen.

II. **Gossen.** — Hermann Heinrich Gossen (1810–1858) was one of those unfortunate geniuses whose work falls upon deaf ears and unseeing eyes. Yet, although his book was all but forgotten and unknown, so clear and important was his contribution to economic theory that a few pages should be devoted to him.

Gossen's book, *Die Entwicklung der Gesetze des menschlichen Verkehrs* (Development of the Laws of Exchange among Men) was published in 1854 at Brunswick. The author states that it is the result of twenty years of meditation; that what Copernicus had done in founding the physical laws of the universe, that he, Gossen, had done for human society, — though some metaphysical Kepler or Newton might be needed to fill in the outline and determine the precise application of his forces. The confusion which existed in economic doctrine he conceived to lie in the absence

<sup>1</sup> *Theories des Verkehrs*, pp. 16, 25, 66.

<sup>2</sup> *De la mesure de l'utilité des travaux publics*, 1844; *De l'influence des péages sur l'utilité des voies de communication*, 1849; "Utilité," *Jr. d'Econ.*, July, 1853.

of mathematical treatment: to deal scientifically with complicated forces requires mathematics. He even suggested that while it is not now possible to measure absolute quantities of satisfaction, comparisons may be made by geometrical principles, and measurements of unknown quantities arrived at, just as distances are computed in astronomy. It may be said that his book is an attempt to put economics on an exact, mathematical basis.

The philosophy is essentially utilitarian. But the broad goal of a greater sum total of human happiness is constantly kept in view.

Gossen at once proceeds to develop a law of decrease in amount of satisfaction, using the common geometrical figures with their ordinates, abscissæ, and curves. From this law he derives the following principles:—

(1) "There is a manner of enjoying each satisfaction, chiefly dependent upon the frequency, according to which the sum of the man's satisfaction reaches a maximum. If this maximum is reached, the sum of the satisfaction will be decreased by a more frequent, as well as by a less frequent, repetition."

(2) "The man who has the choice of several satisfactions, but whose time is not sufficient to procure all completely, in order to attain the maximum of satisfaction must—however the absolute amounts of the satisfactions may differ—partly enjoy all, even before he has completely enjoyed the greatest one; and this [must be] in such proportions that at the moment his consumption ceases the amount of each satisfaction is the same."

(3) The possibility of increasing the sum of the satisfactions of life, even under present conditions, exists when a new satisfaction, be it in itself never so small, is discovered, or when one already known is extended.<sup>1</sup>

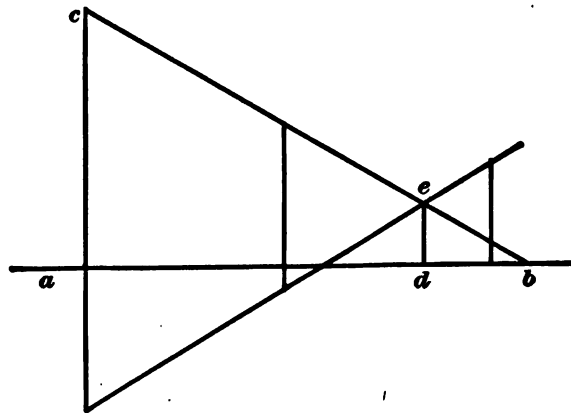
According to Gossen, things have value in proportion as they yield satisfactions or enjoyments. On this basis commodities may be divided into three classes: first, those which

<sup>1</sup> *Gesetze des menschlichen Verkehrs*, p. 21.

have all the properties for yielding satisfactions, that is, consumers' goods, or *Genussmittel*, as he calls them. Next come "goods of the second class," comprising those in which the union of all the properties for complete enjoyment is lacking, as, for example, pipes and ovens and other complementary goods. Finally, production goods are distinguished. These embrace land, machinery, etc., and have an indirect value due to their ability to produce goods of the other classes.

"With increase in quantity, the value of each added unit (*Atom*) must undergo a continuous decrease until it sinks to nil."<sup>1</sup> Thus, goods which yield only one satisfaction have their consumption limited by time, or the number of units consumed. As to a complex of goods: "If his powers are not sufficient to produce all possible means of satisfaction, man must produce each one to such an extent that the last unit of each has equal value to him."<sup>2</sup>

But, meanwhile, what of costs? Gossen here states that different goods require different degrees of exertion for their production, "and the value of the things produced thereby will naturally be diminished in the same degree with the estimation of the difficulty, as such."<sup>3</sup> He draws a



<sup>1</sup> *Gesetze des menschlichen Verkehrs*, p. 31.

<sup>2</sup> *Ibid.*, p. 33.

<sup>3</sup> *Ibid.*, p. 38.

diagram like the accompanying figure, and concludes that "the value reaches a maximum when the quantity *ad* is produced, *i.e.* when the production is carried on so long that the difficulty and the value are equal."<sup>1</sup> It follows that in order to obtain a maximum of satisfaction, men have to divide their time and energy spent in procuring different satisfactions, so that the last unit of any one satisfaction is equal to the amount of difficulty or disutility which would be caused if that unit were produced in the last moment of exertion, *i.e.* at the margin of disutility.<sup>2</sup>

Nor does Gossen let wants or desires go without some analysis along the line of difference in elasticity, etc. He distinguishes "needs" (*Bedürfnisse*) from luxury or pleasure desires, the former being those which cannot be trenched upon without bringing economy in other satisfactions;<sup>3</sup> and he notes some of the results which flow from the fact that men differ in their purchasing power.

The conclusion is that this obscure German anticipated much of recent development in economic theory. The subjective side of value, wants, is emphasized; the marginal utility idea of value determination is formulated; and this is brought into correlation with the margin of disutility. And his classification of goods into different orders or classes is suggestive of Menger's thought. All this he did, to say nothing concerning his development of mathematical methods of presentation. Perhaps the lack of elegance and clarity in exposition may account for a part of the neglect accorded him. The chief general criticisms seem to be his lack of system in presentation, and a failure to deal adequately with market price.

III. **Jevons.**—Some seventeen years after the appearance of Gossen's book, yet quite independently, the English economist, Jevons, worked out similar ideas, and along similar lines. In an introduction to a collection of his essays another English economist, and one whose opinion has no

<sup>1</sup> *Gesetze des menschlichen Verkehrs*, p. 39.

<sup>2</sup> *Ibid.*, p. 45.

<sup>3</sup> *Ibid.*, pp. 135 ff.

small weight, says: "But I do not think it too much to say that the future historian of the science . . . will trace the main sources of its advance in the writings of four men, each of marked genius — Petty, Cantillon, Ricardo, and Jevons; and of these four, the name of Jevons . . . will not, I think, rank last in order of fame."<sup>1</sup> Though the words, "main sources," make the statement an exaggeration, it has its element of truth.

William Stanley Jevons was born in Liverpool, England, in the year 1835. He was a shy and thoughtful man, much given to introspection, and possessed of a very inquiring turn of mind. He attended University College School and University College, London, and in 1854 was made assayer of the mint at Sydney in Australia. Returning, he became successively lecturer and professor at Owens College, and professor at University College (1876–1880). His untimely death in 1882 came by drowning, and men have always regarded it as a great loss to economic thought.

Though he wrote several books and numerous essays,<sup>2</sup> his *Theory of Political Economy*, published in 1871, will be mainly considered here.

Jevons' political economy, while treating of the wealth of nations with the purpose of teaching how the poor can be made as few as possible and all be well paid for their work, inquires how wealth may be best consumed. Consumption he gives a distinct place, and puts it before production and distribution,<sup>3</sup> in this departing from the practice of Mill and the Classical economists in general. Thus wants, and their satisfaction by utilities, are emphasized. "The most important law in the whole of political economy" is

<sup>1</sup> Foxwell, p. xlii of introduction to Jevons' *Investigations in Currency and Finance*.

<sup>2</sup> *The Coal Question*, 1865.

*Theory of Political Economy*, 1871.

*Money and Mechanism of Exchange*, 1875.

*The State in Relation to Labor*, 1882.

*Methods of Social Reform*.

*Investigations in Currency and Finance*. } Posthumous.

*Logic*.

<sup>3</sup> See *Primer of Political Economy*.

the "law of variety" in human wants: each separate want is soon satisfied, yet there is no end to wants. Banfield is quoted with approval as saying: "The satisfaction of every lower want in the scale creates a desire of a higher character." A "law of succession of wants" is also suggested, and is roughly illustrated by a range of utilities shading from air down through food, clothing, and lodging to amusements.

Jevons employs the word, "utility," "to denote the abstract quality whereby an object serves our purposes." He does not allow moral considerations to enter; mere pleasure and pain are the ultimate objects of the calculus of political economy.

He goes on to point out that utility is not inherent.<sup>1</sup> It is relative to wants, and too much of a good brings disutility. Utility decreases as the quantity increases. There is thus a difference between total utility and degree of utility, the degree of utility of successive units decreasing while total utility increases.

"There is a certain sense of esteem, of desirableness, which we may have with regard to a thing apart from any distinct consciousness of the ratio in which it would exchange for other things. I may suggest that this distinct feeling of value is probably identical with the final degree of utility. While Adam Smith's often quoted *value in use* is the total utility of a commodity to us, the *value in exchange* is defined by the *terminal utility*, the remaining desire which we or others have for possessing more."<sup>2</sup>

This final degree of utility is the degree of utility of the last or the next possible addition to a stock. It is the now famous term with which Jevons designated what we ordinarily call marginal utility. By it, exchange value is determined: "The ratio of exchange of any two commodities will be the reciprocal of the ratio of the final degree of utility of the quantities of commodity available after the exchange is completed." In fact, "The final degree of

<sup>1</sup> *Theory of Political Economy*, Chap. III.

<sup>2</sup> *Ibid.*, p. 157.

utility is that function upon which the whole Theory of Economy will be found to turn." <sup>1</sup> To illustrate, take water. Water has no value, for we have so much of it that its "final utility" is 0. But let the supply run short through drought, and we begin to feel a higher degree of utility, — and value comes into being.

Like Gossen, Jevons concluded that in consumption the tendency is to equalize final, or marginal, utilities.

He makes some further analyses: such as the distinction between actual, prospective, and potential utility; and the indication of three dimensions in utility — quantity, degree, and duration. He points out that the time element, too, must be allowed for, as an element of uncertainty.<sup>2</sup>

In developing his ideas Jevons endeavored to work out a theory of objective exchange value by applying mathemat-

<sup>1</sup> *Theory of Political Economy*, Chap. III, p. 61.

<sup>2</sup> *Jevons' other economic theories*.

One of the notable services of Jevons was his work as a statistician. Here he showed marked ability, powers of analysis and imagination being happily combined. His countrymen, Petty and Malthus, had made use of statistics, but with inferior data and less natural acuteness. Jevons had that peculiar gift of detecting likenesses and differences — of discerning "Movements" — in masses of data, which is essential to the statistician. His chief work was in the field of prices. Here he detected monthly movements, yearly movements, — in the autumn, — periodic movements due to crises, and longer cycles resulting from changes in the value of money. His famous hypothesis concerning the relation between industrial depressions, and the periodic recurrence of sun spots will be familiar to most.

It is to be regretted that so acute an observer should have failed to show the deepest insight in dealing with the labor problem. Starting from the premise that the wages of workmen are "the value of the goods produced, after the necessary rent of land and interest of capital have been paid" (*Primer*, p. 64), he concluded that strikes are folly, that to decrease hours would result in decreased wages, and that the objections of trade unions to piece work wages are absurd, — "for men must generally be supposed capable of taking care of their own health." It is but to be remarked that a preponderance of the best economic thought would not accept these conclusions without essential qualifications.

Though his labor doctrine smacks somewhat of *laissez-faire*, it is one of Jevons' merits to have thrown light upon the relation of state to industry. In his *State in Relation to Labour* he shows that, while the presumption is perhaps in favor of individual freedom, yet happiness must be the ultimate test. Four cases are distinguished in which the state may properly interfere: (1) where numerous scattered operations require such interference for their best coördination; (2) when the processes involved are of a routine character; (3) where the work is under the public eye; and (4) where little capital is involved.

ics. He argued that we do not need to employ units of measurement for quantities of feeling because the individual makes direct comparisons in his mind. At this point, however, he meets with the difficulty that every mind is inscrutable to every other mind and consequently no common denominator is to be found. This difficulty he endeavors to escape by turning to the "aggregate" of individuals, arguing that "the laws which we are about to trace out are to be conceived as theoretically true of the individual; they can only be practically verified as regards the aggregate transactions, productions, and consumptions of a large body of people." But the laws of the aggregate depend of course upon the laws applying to individual cases."<sup>1</sup> He then works out his formula, based upon the ratio of final degrees of utility, for explaining the determination of exchange values, — with which values, regarded as mere "ratios of exchange" Jevons was primarily concerned:

$$\frac{\phi_1(a-x)}{\psi_1 y} = \frac{y}{x} = \frac{\phi_2 x}{\psi_2(b-y)} \left\{ \frac{\left( \begin{array}{c} \text{marg. utility} \\ \text{of corn to } A \end{array} \right) \times \left( \begin{array}{c} \text{quantity} \\ \text{available} \\ \text{after exchange} \end{array} \right)}{\left( \begin{array}{c} \text{marg. utility} \\ \text{beef to } A \end{array} \right) \times \left( \begin{array}{c} \text{quantity} \\ \text{beef exchanged} \end{array} \right)} \right\} =$$

$$\frac{\text{quantity of beef exchanged}}{\text{quantity of corn exchanged}} = \left\{ \frac{\left( \begin{array}{c} \text{marg. utility} \\ \text{corn to } B \end{array} \right) \times \left( \begin{array}{c} \text{corn} \\ \text{exchanged} \end{array} \right)}{\left( \begin{array}{c} \text{marg. utility} \\ \text{of beef to } B \end{array} \right) \times \left( \begin{array}{c} \text{quantity} \\ \text{available} \\ \text{after exchange} \end{array} \right)} \right\} \quad \checkmark$$

Jevons says that the only unknowns in this equation are  $x$  and  $y$ , *i.e.*, the quantities of the two commodities exchanged.

Quite naturally Jevons attacked the labor-cost theory of value, or, for that matter, all cost theories. His brief runs something as follows. In the first place, many valuable things are not reproducible at any cost; hence all such goods are not subject to a cost-explained valuation, and a cost

<sup>1</sup> p. 52. Note the individualistic point of view implied.



theory is at best partial. Again, the facts show that market values *generally* fluctuate either above or below cost, seldom equaling it. Finally, there seems to be little relation between the quantity of labor expended and the ultimate value of the product. Take the Great Eastern steamship, for example. In spite of its cost, what is its value when it is found impracticable to use it? In short, "labor once spent has no influence on the future value of any article;"<sup>1</sup> its value on the contrary rises and falls according to the degree of its utility.

The obvious reply to Jevons is that this degree of utility depends partly upon supply, which in its turn is 'subject to limitations of cost. Indeed, Jevons himself goes on to admit that labor plays a part as a determining circumstance, reasoning that labor affects supply, supply affects degree of utility, value depends on degree of utility. This appears to be virtually an admission that the case for utility is overdrawn.

Jevons has been further criticized in two matters of importance: first, he confuses demand price — what marginal purchasers will pay — with marginal utility, apparently assuming that the relations of the two to value are the same;<sup>2</sup> and, in the second place, he is guilty at points of substituting the idea of social utility for that of individual utility, leaping the gulf which lies between the utility scales of different men.<sup>3</sup>

In his theoretical writings, Jevons' method was deductive and mathematical, and, indeed, his conception of political economy was not dissimilar to that held by Senior. He believed, as Gossen had believed, that the mathematical method is necessary to make economics a science, a necessity inherent in the measurement of pleasures and pains.

IV. **Walras.** — Léon Walras (1834–1910) is another economist who was slow in gaining recognition, and whose

<sup>1</sup> *Theory of Pol. Econ.*, p. 159.

<sup>2</sup> See e.g., Marshall, *Principles*, Bk. V, Chap. XIV, note.

<sup>3</sup> See e.g., *Theory of Pol. Econ.*, pp. 61, 96.

fame has suffered from no fault of his work, but from causes exterior to it. His *Éléments d'économie politique pure* (Elements of Pure Economics) was published in 1874, thus shortly following the works of Jevons and Menger. His thought was undoubtedly independent, however, and he himself recommends Jevons' book as complementary to his own. He constructed a more complete system based upon mathematical analysis than did Jevons. The establishment of the mathematical school may be dated from Walras, for, though he was preceded by Cournot, his work was much more complete and systematic.

To some extent, like Senior, Gossen, and Jevons, Walras sought to make economics an abstract science, distinguishing pure economics from applied economics, on the one hand, and social economics on the other. Truth, he held, rather than the useful or the good, should be the goal. In his opinion, economists had given too much attention to exceptional cases, such as old masters' pictures.

His great object was to expound a mathematical theory of exchange, and it is on the second part of his book, entitled "mathematical theory of exchange" that interest is to be chiefly centered. To achieve his end he assumes a perfect competition such as might obtain in the Bourse, and, like Say, makes the entrepreneur receiving and distributing payments for "productive services" the center of the scheme. He neglects the action of impulses, and employs the general hypothesis of exchanges between parties who seek in exchanging to secure the greatest possible satisfaction of their desires.

Social wealth, as defined by him, consists of all things, material and immaterial, which have utility and are limited in quantity. The amount of the value of external things is proportional to the amount of satisfactions they bring us. There is no direct or immediate relation between supply and price; but such a relation does exist between price and demand, and the demand curve depends upon this relation. The cause is intensity of utility. And where two com-

modities are concerned the demand curve depends upon the relation between the intensity of utility of the one commodity and that of the other. The price, then, where neither of the commodities entering the exchange is valueless, is such that the intensity of the last want satisfied is the same for each.

For Jevons' "final degree of utility" — and Gossen's *Werth der letzten Atome* — Walras uses the *rareté*, which he defines as "the intensity of the last want satisfied."<sup>1</sup> Exchange values are proportional to *raretés*. Two commodities being given, for instance, if the utility and the quantity of one of the two commodities in respect to one or more exchangers varies, so that the *rareté* varies, the value of that commodity in relation to the other, or its price, will likewise vary.

In some respects Walras' *rareté* appears to be a truer concept than the common notion of marginal utility; for, in defining it as depending on supply and utility,<sup>2</sup> he gives clear recognition to the fact that supply limitations are included and expressed in it. It would not be difficult for both cost and utility theorists to approach some agreement with Walras' formula, according to which utility and supply, working in obedience to the theory of maximum satisfaction, determine the demand curve from which, positing the law of a single price for the market, comes price.<sup>3</sup>

It is to be emphasized, however, that *rareté* is subjective. Like his fellows of the mathematical-utility school, Walras' theory is based upon the assumption of a direct relation between demand and price and the absence of such a relation between supply and price.

In contrast with Gossen, Walras treats with notable clearness the subject of market values; and he goes beyond Jevons

<sup>1</sup> *Économie politique pure*, p. 101.

<sup>2</sup> Walras expresses indebtedness to his father, Auguste Walras, who used the word *rareté*, and defined it similarly. See *De la nature de la richesse et de l'origine de la valeur*, Paris, 1831. M. Walras, senior, did not work his ideas out with breadth or clearness, however.

<sup>3</sup> *Écon. Pol. Pure*, p. 99.

in formulating his exchange equations for dealings in any number of commodities rather than two alone.<sup>1</sup>

Nevertheless one puts down the "pure political economy" with the feeling that little if anything has been added to real knowledge. What boots it that "the effective demand or supply of one good in terms of another is equal to the effective supply or demand of the other multiplied by its price in terms of the first good?" Other economists had stated that demand equals supply. Starting from the obvious equation, "demand for  $a \times$  value of  $a =$  supply of  $b \times$  value of  $b$ ," Walras draws curves whose axes are (1) quantity of a given good demanded at a given value, and (2) prices of the given good in terms of another good: his curve "gives the quantity of  $a$  effectively demanded, as functions of the price of  $a$ ." Finally comes the italicized statement: "Two goods being given, in order that there be equilibrium, or a stationary price of one in terms of the other, it is necessary and sufficient that the effective demand of each of the two goods be equal to its effective supply (*offre*). When that equality does not exist, in order to reach an equilibrium price there is necessary a rise in the price of the good of which the effective demand is greater than the effective supply, and a fall in the price of the one whose effective supply is greater than the effective demand." He uses a formula which is practically identical with that shown on a preceding page in the discussion of Jevons.

**Summary.**—In brief summary of the character and importance of the thought of the three economists just discussed, it may be stated that all emphasized the subjective element in value causation, that all pursued a deductive, mathematical method, and that all arrived at a concept of the margin, where a final or most intense want is satisfied. Their philosophy is utilitarian and hedonistic.

Another notable point of likeness is that each of the three

<sup>1</sup> For a brief statement of Walras' geometrical theory of the determination of prices in English, see *Ann. Amer. Acad.* III, 45-64 x (1892). Walras' problem is to represent the causation of prices of commodities in general — all commodities — while recognizing that these prices are interdependent.

formulates more or less precisely some law concerning the attainment of maximum satisfaction. Walras puts it thus: "Taking two commodities on a single market, the maximum satisfaction of wants or the maximum of effective utility exists when and where the ratio of the intensities of the last wants satisfied, or the ratio of the *raretés*, is equal to price."<sup>1</sup>

One great difference between Jevons and Walras deserves attention, and that is the fact that Jevons has a better appreciation of the causation of values and consequently goes more deeply than Walras into the real problem of determination. Walras, for example, frequently starts out by assuming his price, and his supply and his demand are price-determined quantities. Jevons seeks to build up to his price by proceeding from causal forces to determination. This difference undoubtedly proceeds from the fact that Jevons was more effected by the Classical English economics, which at bottom has a sort of social point of view, however much it may be shoved into the background. Walras is more highly mathematical and more inclined to think of value as a quality of goods, both material and immaterial; Jevons is more psychological — though not more subjective — and endeavors carefully to guard against treating value as lying in goods.

As will appear from a reading of the next chapter, the analysis of subjective elements made by these men lacks the refinement to which it has been carried by the Austrian school. And of Jevons, at least, it may be said that the theory of value is not strictly subjective, but follows the idea of value as a relation between commodities.

<sup>1</sup> *Écon. pol. pure*, p. 86.

## CHAPTER XXX

### THE AUSTRIAN SCHOOL, AND ESPECIALLY THE DEVELOPMENT OF SUBJECTIVE VALUE THEORIES

MANY of the earlier economists expressed a general recognition of the fact that utility is essential to value. Subjective factors, too, were more or less recognized. These economists were, however, inclined to take utility and the demand based upon it for granted. It was a matter of course with them. This is especially true of the leaders of English thought, less true of the Germans, and least so in the case of a French and Italian group in which Galiani, Genovesi, Turgot, Condillac, and Say may be placed. As has been seen, Gossen, Jevons, and Walras developed this aspect; but Gossen remained almost unknown, while contemporary with Jevons there arose a school of Austrian economists who carried on this line of development with a broader application and a deeper analysis. The "Austrian School" so analyzes utility as to base a comprehensive theory of economic values upon subjective elements. Their reasoning they apply to the valuation of the factors of production, with the result that they have developed a notable theory of capital and interest. In these points they stand as critics of the Classical School.

The members of this school, for better or for worse, were deeply influenced by German economic literature, and that literature was rich in criticism of objective exchange value theories and in psychological analysis.

**The Austrians and their Value Theory.** — Carl Menger laid the corner-stone for the Austrians with his *Grundsätze der Volkswirtschaftslehre*, 1871,<sup>1</sup> — the same year in which Jevons' *Theory* appeared. Menger felt that economic theory

<sup>1</sup> Other writings: — *Untersuchungen über die Methode der Sozialwissenschaft*, 1883; *Die Irrthümer des Historismus*, 1884; "Zur Theorie des Kapitals," 1888 (in

had fallen into disrepute with many scholars, and he sought to restore it to its place of honor by freeing it of inconsistency and basing it upon more fundamental laws of causation. All things, he says, are subject to the law of cause and effect. In economics the human want is the fundamental thing. Things which have the capacity of being placed in causal connection with the satisfaction of human wants are utilities. To bring an object into the sphere of economic causation four conditions are necessary: (1) a human want, (2) such properties of the thing as make it capable of being placed in causal connection with the satisfaction of this want, (3) the recognition of this causal relationship by man, (4) the power to dispose of the thing so that it can actually be applied to the satisfaction of the want.<sup>1</sup> With such analysis Menger sought to arrive at ultimate causes, and to draw an explanation of value—which he regards as the heart of economic theory—from the economic activity of the individual, that is, from his exchange contracts. Although some recognition is given to the influence of society, according to Menger, value is an individual phenomenon: it is independent of society and law. He defines value as “the significance which concrete goods or groups of goods gain for us through the fact that in the satisfaction of our wants we are conscious of a dependence upon the disposal of them.”<sup>2</sup> In opposition to cost theories, he maintains that value rests on utility and relative scarcity.

Goods are divided into different classes, or “orders,” according to their nearness to the consumer.<sup>3</sup> Thus bread is in the first order; flour in the second; wheat in the third. Goods of the last description are of the “higher order,” and their value is reflected back from those of the “lower order”: wheat has value because and in so far as men want wheat bread to maintain life and well being.

*Jahrbücher für Nationalökonomie und Statistik*; “Gründzüge einer Klassifikation der Wirtschaftswissenschaften,” 1889 (in *Jahrb. f. Nationalökonomie und Statistik*); “Beiträge zur Währungsfrage in Oesterreich-Ungarn,” 1892; *Die Übergang zur Goldwährung*, 1892.

<sup>1</sup> *Grundsätze*, p. 3.

<sup>2</sup> *Ibid.*, p. 78.

<sup>3</sup> Chap. I, § 2.

Differences in value are due to the different estimations which men put upon the satisfaction of various wants. The value of a concrete good, or of a certain aggregate, at the disposal of an economic man is equal to the significance of the least important want satisfactions yielded.

Always, where there are the bases for an exchange between men who are actuated by economic motives, certain limits are set by the quantities of exchangeable goods which are deemed equivalents by the parties; and these quantities, which in a subjective sense are equivalents, differ with different individuals. Within these limits price is determined. If A estimates 100 units of grain at 40 units of wine, and B estimates 80 units of grain at 40 of wine, an exchange can take place, the price in grain lying somewhere between 80 and 100.<sup>1</sup>

Over and over again Menger repeats his statement that value and the measure of value are subjective and dependent on wants. The quantity of labor or capital expenditure involved has no direct or necessary connection.<sup>2</sup> In a primeval forest one may chop wood till doomsday without making that wood valuable, while a diamond picked up by chance has great value. Nor does the cost of reproduction solve the matter;<sup>3</sup> for there are many goods which cannot be reproduced, and many others, like out-of-date clothes, whose value is less than that of the agents of their production. Menger pays virtually no attention to objective values, and does not attempt to deal with costs in a definite way.

The next important step in the development of the Austrian theory comes with the publication in 1884 of the *Ursprung und Haupt-Gesetze des wirthschaftlichen Werthes* (Source and Principal Laws of Economic Value) by Friedrich Freiherrn von Wieser. He built upon Menger, applying his theory to the phenomena of costs and distribution, and deepening the psychological analysis. In his later thought, he worked out a theory of objective value, though not independently.

<sup>1</sup> *Grundsätze*, p. 176.

<sup>2</sup> p. 120.

<sup>3</sup> Cf. above, pp. 286, 289.



Wieser's complicated statement of what gives economic value to a good may be translated thus: (1) If things are capable of producing useful effects (aside from things of indifference, and perhaps those which are harmful); (2) if their supply does not equal the employment for them; (3) if they allow encroachments by men which, when economic, increase their usefulness, and, when uneconomic, decrease it; (4) if all subjective suppositions which complete these objective ones agree; (5) and if, then, the existence of the good, its utility, and other external circumstances are perceived; (6) if the need for it is not only distinct, but also its satisfaction is desired; (7) and if the purpose is formed to do the economic acts which show themselves practicable while shunning the temptation to uneconomic action,—then will the interest be transferred from the expected economic uses to the goods, and become associated with them, *i.e.* then the goods receive economic value.

"The value of a single good out of a store is determined by the interest in that useful service which is the least important among the most important ones afforded by the store." For Jevons' "final utility" he substitutes the term, *Grensnutzen* (marginal utility), which has since become so generally used.<sup>1</sup> In his *Natural Value*, Wieser expresses himself more boldly; saying, "In a word, the value of a supply of similar goods is equal to the sum of the items multiplied by the marginal utility."<sup>2</sup> This, of course, implies a divisible good with more than one unit of supply; and Wieser states that the law rests upon the existence of scales of want and the "fact that goods come forward in stocks or supplies consisting of similar items."

In explaining the value of the factors of production, Menger had held that the decisive thing is the portion of the return which would be lost through the loss of a factor. To this theory Wieser objects. In his *Natural Value* (1889)

<sup>1</sup> It will be remembered that von Thünen developed a marginal productivity theory, and he used the word *Grenze* (margin) in connection with it. See above, pp. 338 f.

<sup>2</sup> Eng. ed., p. 25.

he bases such value upon the "productive contribution" of the factor — a theory of *imputation*. He uses the principle of complementary goods, and argues that "the elements that are bound up . . . may alter, and this fact makes it possible for us to distinguish the specific effect of each single element,"<sup>1</sup> by comparing a number of equations. This theory Wieser reaffirms in his last work on *Theory of Social Economics* (1914). He draws a distinction between "cost instruments of production," which are reproducible and applicable to more than one use, and "specific instruments of production," which, like land, are naturally scarce or limited to a single use. Cost instruments, being subject to many uses, can have their productivity imputed by comparing numerous equations; but specific instruments must be treated as residual claimants, being assigned such portions of the marginal utility of the joint product as are not imputed to the cost instruments with which they are used (labor and capital). This is merely a broadened rent concept, such as has been adopted by not a few other economists.

It would seem that even if Wieser's scheme be useful in an illustrative way, and as a practical means of *measuring* the value of production goods in any given amounts, it is lacking when it comes to the more fundamental problem of *determining* their value: It does not explain causes or points of fixation. Economists are, to say the least, sceptical of the possibility of specifically attributing a separate portion of a joint product, — one for whose existence each of several coöperating factors is necessary, — to any one of the factors taken alone, and especially so on a mere marginal utility basis.

Meanwhile, what becomes of the idea that it is the cost of these elements of production that determines the value of the product? This Wieser denies, though admitting that costs have an indirect and partial effectiveness. It is his idea that only men's interests, based on utility, induce them

<sup>1</sup> p. 87.

to estimate value at cost. This development of the conception of cost as subjected to utility is one of his chief contributions to the theories of the Austrian School.

To use his own words: —

“If we ask why products thus produced — neither under nor over costs — have value, and why they have definite amounts of value, we shall doubtless find that they have themselves alone to thank for it. They create it out of their utility, taking into consideration the amounts produced. The circumstance that costs of a certain value have been expended in making them is of no consequence as regards their value. The cost value does not determine the use value; the use value exists of itself, and sanctions the cost value.”<sup>1</sup>

Cost is “sanctioned” by use value, — is, in fact, nothing but a complicated form of value in use.

But, as just intimated, costs are admitted to “affect” values. Though not consistently followed, the idea appears to be that the anticipation of value (utility?) gives costs themselves a *value*. Then the “value of costs”<sup>2</sup> may even determine value of goods, either indirectly, by regulating supply, or directly, in individual cases, by communicating their own value to the good. “The Austrian School does not in any way destroy the idea of cost or the law of cost, it only endeavors to combine both with the general idea of value and its general law, and to explain them in this way.”<sup>3</sup>

Wieser’s explanation of the existence of the old notion concerning costs is ingenious and interesting. Just as the value of a mineral spring depends on the utility of its water, so iron, coal, and labor derive value from the utilities produced. But here, any one unit of commodity reflects so small a portion of its total utility that it seems that the process is reversed, and that the commodity derives its value from the elements entering into its production. The indi-

<sup>1</sup> *Natural Value*, Smart’s ed., p. 177.

<sup>2</sup> *Ibid.*, p. 176.

<sup>3</sup> Wieser, “The Theory of Value” (A Reply to Professor McVane), *Ann. Amer. Acad.*, II, 620 (1892).

vidual capitalist, for example, if his means of production have other applications, finds them evaluated in the general market, and he tends to regard the situation as one in which the value of his wares must replace his expenses of production. But, argues Wieser, the buyers of his wares pay only according to their estimation of their marginal utility. All that cost does is to limit the supply put upon the market.

"At the sale of the products the capitalists continually rectify their calculations, and according to their gains or losses the value of the means of production increases or diminishes in their estimation." Put more abstractly, when production is bringing forth products, productive powers are at the same time limited, making economy necessary. This leads men to conceive of production goods as costs, directing their attentions to the equalization of related productions, and causing them to regard productive employment as an outlay or sacrifice.<sup>1</sup>

In following the thought of the Austrians we must constantly remember that by costs they generally mean mere "opportunity costs" based on alternative use, — an entrepreneur concept. As Wieser puts it: "Costs are production goods when these are devoted to one individual employment, and, on account of their capacity of being otherwise employed, take the shape of outlay expenditure."<sup>2</sup>

In examining the foregoing idea of costs in relation to value, one is struck with the juggling way in which now all that the properly limited Classical idea contains is admitted, now all is denied. No one denies that "the idea of utility cannot possibly be separated from the purposes of economy and the conception of wealth";<sup>3</sup> nor that men's interests based on utility lead them to estimate value at cost; nor that value is created out of utility, "*taking into consideration the amounts produced.*" But many deny that the fact that certain costs have been necessary is of no consequence in value,

<sup>1</sup> *Natural Value*, Smart's ed., pp. 174-175.

<sup>2</sup> *Ibid.* For a criticism of the opportunity-cost idea see Haney, *Opportunity Cost*, Amer. Econ. Rev., Vol. II, p. 590.

<sup>3</sup> *Ibid.*, p. 196.

and it would seem that "the amount produced" can be taken for granted only by making assumptions concerning the cost of producing those amounts which beg the question at issue. The trouble seems to lie in a confusion of the ideas of source or causation and determination or fixation. As in the case of the proverbial hen-*vs.*-egg conundrum, it is of small importance whether wants or costs come first as causes or sources of value. We may well grant that the want, with its corresponding utility, is the first of the fundamental forces to act. No one will deny that utility in a sense "sanctions" cost. But when we are taken further and told that costs have no *determining* importance, the harmony is broken. In cases where supply is limited by costs, and so cost enters into the determination of the "margin," it is as important a factor as the utility which decreases as the supply is increased.

To speak of "use values" and "value of costs" is quite misleading. If "use value" means any more than utility, cost or rarity has entered; just as costs can have no value unless utility is joined with them.

Wieser goes on to argue (1) that labor cost has "use value" only (a) when, if the labor failed, it could not be repeated, and so the utility would be unique, or (b) when, in the same case, some other utility would have to be foregone; (2) while, on the other hand, services are estimated according to cost only when, in the event of failure, one would not need to give up the utility, abundance of free labor power existing; and he concludes that this is a contradiction, — "Labour could only be estimated at once by its utility *and* by personal effort, if it were at once capable and incapable of repetition." To this objection it may be immediately replied that in a sense this seeming paradox is the very truth: the very point in the two-sided theory of value is the fact that while labor can be repeated, it can be repeated on the whole only with difficulty, that is, with cost, which fact limits its repetition. It may be further observed that in the first clause (1) of the argument just stated the

first assumption (a) involves a case of absolutely limited supply; while the second clause involves an abstract assumption which is contrary to fact.

Last of the three pillars of the Austrian School comes Eugen von Böhm-Bawerk (1851-1914). Böhm-Bawerk opened his important contributions in 1884 with his well-known *Capital and Interest*, a critical history of economic theory; following with a monograph, *Grundzüge der Theorie des Wirtschaftlichen Güterwerths*<sup>1</sup> (Outlines of the Theory of Commodity Value) (1886), and his masterpiece, the *Positive Theory of Capital* (1888).

Böhm-Bawerk is notable not only for independent thought, but for clear exposition and illustration, and a "careful and fruitful revision of many matters of detail." To some extent following the German economist Neumann, he further elaborates the division of value into subjective and objective — with which he would replace the old division into use value and exchange value, — and one of his distinct merits lies in his treatment of objective value or purchasing power. He it was who first among the Austrians gave us a well-rounded attempt to bridge the gap between the subjective and the objective and to develop a complete theory of objective exchange value and price.

Subjective value is defined as the significance which a good acquires as the recognized condition of a use for well-being which would have to be foregone without the good. The amount of value depends upon the amount of gain in well-being which the good brings, or what want would remain unsatisfied without it: "The value of a good is determined according to the importance of the concrete want or increment of want, which is the least important of those met by the supply of such goods at disposal," — *i.e.* by its marginal utility.

Böhm-Bawerk distinguishes two sorts of subjective value: Subjective use value — defined in the preceding paragraph, — and subjective exchange value. The latter, which differs

<sup>1</sup> Conrad's *Jahrbücher f. Nat. Oek.*, N.F., XIII.

much less from use value than it does from objective value, is simply "the importance which a good obtains for the welfare of a person through its capacity to procure other goods," and its amount coincides with the use value of the goods received in exchange. Commonly use and exchange subjective values differ from one another, in which case the higher of the two sets the value.

But the word "value" does not always suggest the subjective.<sup>1</sup> Thus when we say that a pound of gold has a higher exchange value than a like weight of iron, we refer only to an objective relation between commodities. Exchange value in the objective sense is nothing but the capacity of a good to command other goods in exchange. It is a social phenomenon, and could only exist in society, but Böhm-Bawerk attempts to show that it rests upon individual valuations. First he takes an isolated pair; then competition among a group of buyers is introduced, then among sellers, till finally two-sided competition is considered.<sup>2</sup> To cut a long story short, he concludes, with considerable amplification and refinement of his predecessors' teaching, that objective exchange value is determined somewhere between an upper limit set by the valuation of the last, or least desirous, buyer included in the exchange and the most capable seller excluded, on the one hand, and a lower limit established by the valuation of the least capable seller — the last seller — and the most desirous buyer excluded.<sup>3</sup> In every case it is the narrower of these double limitations that decides. "If, finally, we substitute the short and significant name of 'Marginal Pairs' for the detailed description of the four parties whose competition determines the price, we get this very simple formula: The market price is limited and determined by the subjective valuations of the two Marginal Pairs."

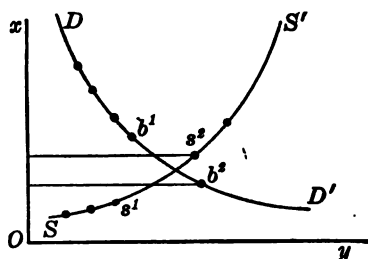
The clearest view of the foregoing scheme may be gained when it is illustrated by curves, though Böhm-Bawerk does

<sup>1</sup> "Grundzüge," Conrad's *Jahrbücher*, 1886, p. 477.

<sup>2</sup> *Ibid.*, pp. 492 ff.; *Positive Theory* (Smart's trans.), pp. 198 ff.

<sup>3</sup> *Ibid.*, p. 208.

not use diagrams. If  $DD'$  represents a series of buyers' subjective values arranged in descending order, and  $SS'$  a series of sellers' subjective values arranged in ascending order; and if  $b^1$  and  $s^2$  = the last included buyer and seller respectively; then the maximum price will be set by the pair  $b^1$  and  $s^2$ , and the minimum by the pair  $s^1$  and  $b^2$ . In the diagram  $s^2$  and  $b^2$  are closer together than  $b^1$  and  $s^1$ ; and consequently they set the limits.



The factors which determine the valuation level are: the number of desires for the ware, the height of the buyers' valuation figures, the quantity of the ware for sale, and the height of the sellers' valuation figures. But these valuation figures are no simple quantities; they are obtained by comparing valuations of the wares with the valuations of their "price goods."<sup>1</sup> This makes it necessary to introduce two further elements: the absolute quantum of the subjective value of the "price good" or price equivalent to the would-be buyers; and the same quantum to the would-be sellers.

Böhm-Bawerk, like Wieser, admits that cost plays a part in determining value, but a subordinate and indirect one.<sup>2</sup> In the case of freely-producible goods there is substantial identity of cost and price; but this is because the price of the product controls, and the price of the cost goods is the controlled. The law of costs is not against, nor beside, but within the law of marginal utility.

In order fully to understand the Austrian theory of value, we must note the abstract conditions which are assumed. Böhm-Bawerk may be taken as representative, and he appears to proceed in a well-nigh Ricardian manner to conjure

<sup>1</sup> "Grundzüge," above cited, 509. The Germans use the word "price" (*Preis*) not to signify the money expression of exchange value, but the amount of any good received in exchange for that sold.

<sup>2</sup> See *ibid.*, above cited, p. 537.



up economic men acting in frictionless competition. As preliminary assumptions, come the statements that each individual will seek only his own direct advantage, and accordingly that each will exchange only when an advantage is to be gained, will prefer a greater to a less advantage, and a small gain to none. Also, exchange is to be regarded as economically possible only between persons who value goods differently — yes, oppositely. When we come to the common case, of two-sided competition, we find the reasoning all based on a situation in which no individual makes a mistake in following his self-interest; while, on the side of goods, all units must be exactly the same, and it must be possible to make additions to the stock.

**Interest Theories and Distribution.** — The Austrians have differed among themselves as to the true theory of interest. Menger and Wieser supported what may be called a productivity theory; while Böhm-Bawerk holds what has been rather unsatisfactorily called an exchange theory, or, sometimes, a value theory. Menger, for instance, states that the use of capital, assuming it to be scarce, gives rise to a value in the anticipated product over and above the other means of production employed, and that this increment of value represents the “power of disposal” over the capital-goods used. This power has a distinct value as a means of production. Wieser bases interest upon the productivity of capital as its cause. Taking a series of cases of production in which different proportions of capital function, he concludes that a part of the product which varies with the amount of capital is imputable to capital. The “productive contribution” imputable to capital is the direct cause of interest.

On this point Wieser criticizes Menger, who had attempted to solve the problem from the other side, so to say, by observing what is lost when capital or units of capital are removed from the productive complex, — a sort of negative imputation.

As to this imputational reasoning the critic will note that

the question, *why*, still remains. Granting an empirical relationship, what is *its* explanation?<sup>1</sup> What is the cause? How is the amount of the share imputable to each factor, determined?

Böhm-Bawerk, in his book on *Capital and Interest*, says that the interest problem is one of determining the causes which guide into the hands of capitalists a part of the stream of national production. He makes an interesting distinction among different sets of interest theories: naïve productivity theories which regard the shares in distribution as separate from the beginning; exploitation theories which look upon the shares as forming one stream to the end, where labor is robbed; the value theory, which, in a sense, lies between the two, holding that the stream begins to separate when it comes under the influences which create value.<sup>2</sup> This is his theory, and according to it the explanation of interest lies in the valuation process,—in the fact that men tend to value the same good more highly in the present than in the future.

On the capital-and-interest question, then, Böhm-Bawerk differs with Wieser, denying the validity of the theory of imputation, and basing his reasoning upon the "technical superiority" of roundabout processes of production.<sup>3</sup> In a roundabout process of production instrumental or capital goods are used, which on account of the remoteness of their availability for consumption, have a relatively low present value. As such production goes on the capital goods are transformed or "ripen" into consumers' goods of a higher present value. As a result of the time element, therefore, there is a growth of values in excess of labor costs, from

<sup>1</sup> For detailed criticism see *Ann. Amer. Acad.*, V, 522 f. (Green); and criticisms on similar theories of J. B. Clark and his followers.

<sup>2</sup> *Capital and Interest*, pp. 421 f. Böhm-Bawerk also distinguished "use," "abstinence," and "labor" theories.

<sup>3</sup> In criticism see Landry, "Productivity of Capital," *Quart. Jr. Econ.*, 1909, p. 585; Borkiewicz, "Der Cardinalfehler der Böhm-Bawerkschen Zinstheorie," *Jahrb. für Gesetzg.*, 1906; Bleicher, "Gegenwart u. Zukunft in der Wirtschaft," *Jahrb. für Nationalök.*, 54: 347; and the writings of Professor Irving Fisher.

which excess interest flows as a permanent net income. To state this idea in another way: roundabout methods of production require the use of future goods, or capital. By exchanging present goods for future goods, therefore, the capitalist can secure the larger results of the roundabout process at some time in the future. To be sure, at the outset the smaller quantity of present goods represented by capital has greater value than the large quantity of future goods, but in time the future goods become present goods, and then their value exceeds that of the quantity originally advanced. This excess, or premium, is interest. In short, the difference between the value of capital goods and the value of consumers' goods explains interest in all its forms.

All this stands opposed to cost theories of interest, as, for example, Senior's abstinence theory. Senior gave a place to the time element, but it was the cost of waiting and abstinence involved that he thought of. Böhm-Bawerk denies that abstinence is an independent sacrifice, holding that it cannot be added to labor pain to get a total cost cumulatively. And to illustrate his attack, and the criticism of that attack, take this passage. The planting of fruit trees is mentioned, and the alternatives of a destructive storm and undisturbed fruition in ten years, are assumed. Böhm-Bawerk asks, Is my sacrifice any greater if the storm does not come and I wait ten years for the fruit?—thinking the answer must be no, and therefore abstinence cannot be taken as the ground of interest on such an investment.<sup>1</sup> But the answer should be: The question is misleading. As well ask, if one orchard bears 100 bushels in ten years, and an equal orchard bears 100 bushels in fifteen years, would productivity be greater in the latter case?—and, if the answer be no, conclude that the time element or difference between present and future estimation plays no part. At this point Böhm-Bawerk confounds general with special values. In the long run, interest rates must normally be high enough to cover  
 ? the losses—the unrewarded abstinences.

<sup>1</sup> *Capital and Interest*, p. 281.

In a supplement to *Capital and Interest*, called *Recent Literature on Interest*,<sup>1</sup> Böhm-Bawerk argues that, if a good equals 10 in value now and 6 five years hence, it would be uneconomic to undergo sacrifice in labor and waiting to exceed the latter amount, or 6, and that there is thus no room for a sacrifice aside from labor — or money. This mode of procedure assumes the future value, 6. But the 6 cannot be taken for granted: the sacrifice is not limited to 6, but to 10 — 6 (?).

The truth appears to be that the relation of future to present value in the interest problem is a more complex one: the future gratification is worth less, partly because of the sacrifice which is involved in saving and waiting and which enters immediately into the estimation of the future; and then interest *must* be paid — Böhm-Bawerk explains how it *can* be paid — because men are unwilling to submit to any greater sacrifice than is indicated by that estimation of future value (6 ?). It is only by introducing cost that the share imputable to any particular factor of production can be determined.

The *general shortcoming of the Austrian theories both of value of cost-goods in general and of interest in particular lies in the assumption of an independent value existing in the products secured, which value they seek to reflect back upon the instruments of production.* But, having thrown out cost as a coördinate element in the valuation process, they have no connecting link or limiting factor. Only by introducing cost is it possible to show why reproducible goods must have value and why a part of that value must be returned to each by means of production.

It is another shortcoming of Böhm-Bawerk's that he ignores the problem of the determination of wages, leaving the question, how is the product divided between labor and capital, unanswered. Wieser, in his *Social Economics*,<sup>2</sup> gives us what is probably the best-rounded attempt at a complete theory of distribution based on marginal utility which has come

<sup>1</sup> Translated by Scott and Feilbogen. Chap. IV.

<sup>2</sup> For an excellent review see Mitchell, "Wieser's Theory of Social Economics," *Pol. Sci. Quart.*, March, 1917.

from the leaders of the Austrian School. It is a productivity theory based on the specific imputation of shares to labor and capital. The entrepreneur's income consists of wages of management, interest on invested capital, and possibly an element of pure profits imputable to the entrepreneur function as such. Rent is much the same as in the Ricardian theory, only the margin depends not on cost but on the imputed productivity of the instruments of production other than the rent-bearing agencies.

**Followers of the Austrian School.** — Among the followers of the Austrian School, Robert Meyer (*Principien der gerichten Besteuerung*, 1884; *Das Wesen des Einkommens*, 1887); Launhardt (*Mathematische Begründung der Volkswirtschaftslehre*, 1885); E. von Phillipovich (*Aufgabe und Methode der Politischen Oekonomie*, 1886, and *Grundriss der Politischen Oekonomie*, 3d ed., 1889); Emil Sax (*Grundlegung der Theoretischen Staatswirthschaft*, 1887); and Robert Zuckerhandl (*Theorie des Preises*, 1889), are especially noteworthy for writings which show independent thought.<sup>1</sup> Launhardt gave the Austrian theory a mathematical formulation, in this resembling Walras. Sax has supplemented Böhm-Bawerk's work by analyzing the separate functions of subjective and objective value in economic life, and by showing the bearing of the marginal-utility theory on public policy. He argues, for example, that taxes should be in proportion to the value of the services to be performed by the state as estimated by the citizens, and that the State should not take goods out of individual hands when they will yield a greater net income if individually held. Phillipovich, however, is the leading general theoretician, and his *Grundriss* has had many editions and wide influence. In it he criticizes Böhm-Bawerk's theory of interest. He rejects the idea of opposing the value of present consumption goods to the value of future goods, stating that actually we compare the values of the present goods represented by capital with an estimated value of future consumption goods. The

<sup>1</sup> Mataja, Seidler, and Komorzynski are also to be mentioned.

fact that this comparison is generally in favor of the entrepreneur is the result of the existence of unsatisfied wants for consumption goods.

The Italian, E. Cossa, the Frenchman, Block, and the Americans, Patten, Clark, and Fetter, may be mentioned as being specially influenced by or in sympathy with the Austrian School. Also the Dutch economist, Pierson (*Leerboek*, 1884).

**Philosophy and Method.**<sup>1</sup> — The philosophy which underlies the economics of the Austrian school is that phase of utilitarianism that is known as hedonism. The Austrians appear to assume that the good is known by balancing pleasures and pains, and that well-being is at a maximum when the number of those who have more pleasure than pain is the greatest. At least, this is their tendency.

In the first place, self-interest is made supreme. Thus, Böhm-Bawerk says: "For the generally recognized principle of economy lies in just this, to seek the greatest utility with the least sacrifice" <sup>2</sup> (p. 332). Furthermore, the leading idea of the school is that the object of desire is pleasure, and that all volitional acts — which acts they regard as predominant — have happiness as their goal. "In the last analysis," writes Böhm-Bawerk, "according to our theory, it is with feelings and sensation quanta that we have to reckon." <sup>3</sup> In exchanging, we compare the pleasures which are attached to the enjoyment of different goods; and for the most part we do this in a rational way. "Fiery enthusiasm for ideals and elementary outbursts of instinct have a far greater part in extra-economic acts than in the cool, calculating deliberations which assign to a good its economic value based on the most rational use."

This philosophy, proceeding as it does upon the ground

<sup>1</sup> If the reader who is not versed in philosophy has not read the general introductory discussion of the relation between philosophy and economics (pp. 7-17), he can hardly expect to understand this section readily.

<sup>2</sup> *Positive Theory of Capital* (last German edit.), p. 332.

<sup>3</sup> *Ibid.*, I, p. 331.

that men's ends are states of consciousness<sup>1</sup> and that men's actions are guided by reason, is at the bottom of the subjective standpoint of the school.

It is of fundamental importance, then, to inquire if this philosophy be sound. Without attempting to pass final judgment, one may say that it has been subjected to much serious criticism, — so much and so serious as to warrant the conclusion that it is an imperfect basis for a system of economics.<sup>2</sup> Briefly, it has been objected that in making pleasure that object of desire, the desire is taken for granted and so the cart is put before the horse; for we do not desire things — not in large part, at least — because they are pleasurable, but rather they are pleasurable because they gratify desires. There is a wide difference between the two ways of looking at the matter: The hedonist tends to regard the individual as having a sort of passive mind, registering sensations determined from without and grinding out calculations according to the laws of reason. He assumes that sensations and valuations are directly related. His critics emphasize character as the basis of desire, and the predispositions to desire as shaped by biological and social factors. Thus, they would attach much greater importance to instinct and imitation as elements in guiding economic activity. Inasmuch as men have *innate* desire tendencies, they say, we find them sometimes valuing things that do not give pleasant sensations and attaching degrees of value that are not in proportion to the pleasure derived from pleasant ones.

Naturally, taking such a view of the mind and its functions as they do, the Austrian hedonists have been criticized for failing to consider "personal references" in the valuation process, the point being that objects often acquire imputed values through explicit acknowledgment of the sub-

<sup>1</sup> " . . . es sich nur um ein mehr oder minder von lust oder genuss handelt." (318-319.)

<sup>2</sup> See Martineau, *Types of Ethical Theory*; Green, *Prolegomena to Ethics*; Sidgwick, *Methods of Ethics*; James, *Principles of Psychology*; Dewey and Tufts, *Ethics*; Urban, *Valuation, its Nature and Laws*.

ject for which they exist, the feeling of possession ("pride of ownership"), for example, being more than a mere feeling of the worth of the object and not proportional to sensation.

When it comes to classifying the thought of the Austrian School under the heads of idealism or materialism, a certain measure of dualism is found. The Austrians emphasize human wants. They appear to regard man as acting upon prospective pleasures and pains, unhampered by objective limitations, and to minimize the importance of costs and scarcity in the determination of marginal utility. Their philosophy, therefore, shows traces of idealism, or of tendencies toward idealism. Moreover, we find among the members of the school a not infrequent resort to a kind of social point of view; and certainly their method is deductive. Founded on subjective elements, with utility as the dominant force, the doctrine would seem to start with an idealistic slant. But as the structure of their reasoning is raised, things material come to play a larger and larger part. We observe that, after all, utility is made to depend upon the material — upon sensations and upon the way in which goods present themselves to the senses. The Austrians, moreover, were individualists and opposed Socialism at every turn. Their marginal utility was the individual's feeling of the importance of a good in view of the number of units of the good available to him; nor did they attempt to conjure up a social mind to serve as the seat of a social marginal utility.

We have made the attitude assumed towards man's ability to deal with the "forces of nature" a practical test of theories concerning mind and matter as these theories are manifested in economic thought,<sup>1</sup> and on this score clear evidence may be found of a dominant strain of materialism in the Austrian doctrine. Wieser is, after all, the most philosophical representative of the school, and in his *Natural Value* he clearly accepts the idea that man can never hope to gain the upper hand in his striving to satisfy his

<sup>1</sup> See above, p. 13.



wants that depend on physical acts; for he reasons that exchange values must for the most part ever run parallel with utility, and that is to say that scarcity will ever attend wants. This reasoning is evidently based upon the theory of the indefinite expansibility of human wants which makes it impossible for supply so to gain upon demand as to cause total values to descend while total utility and want gratification are increasing.

The conclusion to be drawn from this brief examination of the philosophical background of the Austrian School's thought is that there are inconsistent elements in that thought which must be carefully fused into a synthesis if the system is to endure. Based ostensibly upon utility, and proceeding through subjective analysis, it would logically be associated with idealism and with a social point of view according to which the interests of society would coincide with those of individuals. It would, in fact, either assume that individuals in following their several desires would be led to act in harmony or that Society would dominate individuals; and either of these extremes would lead to the acceptance of total utility as the test of value and productivity.<sup>1</sup> But instead the Austrians turn to the individual and the concept of the margin. Individual estimates must be limited by individual possession of goods and margins are of significance as expressing not only degree of utility but also degree of scarcity. While, as has been suggested, the truth lies in a synthesis of idealism and materialism, the Austrian doctrine, especially in its attitude toward objective limitations, falls short of the requisite balance: idealism dominates in the philosophical basis, but in the structure reared upon it, the materialistic element predominates.

But if the criticism of the philosophy is sound, what of

<sup>1</sup> It is interesting to note that Professor J. B. Clark is more consistent on these points. He, in his *Philosophy of Wealth*, accepts society as an organism, and regards value as expressing marginal utility to society as a whole. This is a kind of total utility and corresponds to what *to any individual* might well seem total utility in the usual sense. Professor Clark is also more philosophically consistent in his optimism and in his conception of costs. He does not adopt the opportunity cost ideas of the Austrians.

the related subjective theory of value? To put utility forward as the force which controls valuations would also be putting the cart before the horse, and to assume a parallelism between sensation and utility (the Austrian's subjective value) is to overlook a considerable part of the conditions of human choice. Of the economic aspects of these points more will be said in the next section.

The method commonly and most easily associated with a philosophical background such as that described on the preceding pages, is abstract and deductive. Above all its abstract character is to be emphasized. The Austrians themselves have used the words "exact" and "isolating" as characterizing their method, by the former meaning an exactness reached by simplifying the premises used, and by the latter the abstracting of a single factor or relatively simple group of factors for use in reasoning. Thus the essential characteristic of the method is its simplification by removing complications, — which means an abstract procedure. Human motives are used as a basis, but first they are reduced to a workable form by adopting a hedonistic analysis. No better example of such methodology could be found than Böhm-Bawerk's development of the "laws of price" in the *Positive Theory of Capital*. But abstraction is the beginning of deduction, and accordingly the Austrians make diminishing utility the starting point of a "system" built up by proceeding from the general and simple to the particular and complex. This is illustrated in their unfolding of a theory of value from the premise of diminishing utility, and a theory of interest from the premise of the greater interest in present than in future enjoyments. E. Sax may be said to have attempted a similar procedure in finance (*Die Verkehrsmittel in Volks- und Staatswirtschaft* (1878-9). The spirit of the school is seen in the words of Wieser who somewhere says that the laws of value are to economics as the laws of gravity are to mechanics.

Some of the errors found in the theories of the Austrians are to be attributed to what is a weakness in their method,

namely its tendency to overlook the importance of ample verification and due allowance for complicating circumstances.

**Critical Estimate and Summary.** — The leading Austrian economists are justly called a "school." In the first place, they have worked in virtual collaboration; then, they agree in centering attention upon value, their value theory being their chief doctrine; and finally, they proceed from a common philosophy, hedonism, and pursue a common method, the deductive, in this opposing themselves to the Historical School.<sup>1</sup> Even compared with Jevons, they are distinct; for he, making value a relation between goods, followed an objective exchange concept, while they hold to a subjective theory. Thus they make more use of psychology and less of mathematics than did Jevons.

The essence of the Austrian economic thought lies in its quest for an ultimate and unified analysis based on subjectivity. And it may be observed in advance that its achievement has been a deeper analysis of valuation psychology and a coördination of theories.

The significance of the school appears most clearly in contrasting it with the doctrines of the Classical School. The Ricardian economics makes value equal effort expended, — and wealth, effort saved; the Austrians make value equal utility (marginal), — and wealth, utility or satisfaction secured. The Ricardian theory is, in a sense, dualistic, referring now to utility, now to labor or effort; the Austrian theory might be called an attempt at monism, the effort being made to base it upon utility alone. Thus Ricardo made two laws: one for non-reproducible commodities — scarcity value; the other for reproducible ones — cost of production. But the Austrians fit costs into their unified scheme, arguing that it is not cost which functions, but limitation of supply, and cost indirectly through limitation. Wieser writes: "We have tried, above all, to abolish the dualism of labor and

<sup>1</sup> Menger and Böhm-Bawerk both are versed in history, and neither is blind to its merits.

utility, that combination of irreconcilable causes, which only proves that the true cause has not yet been recognized."<sup>1</sup> Accordingly, while the Classicists refer to temporary fluctuations and natural level as controlled by different laws, the Austrians say there is one law for both; and what the former distinguish as value in use and value in exchange, the latter combine as subjective value. It is fairly obvious, however, that with their distinctions between cost goods and monopoly goods, cost instruments and specific instruments, and the like, the Austrians themselves return to a sort of dualism.

Finally, a great merit of the Austrians is their attempt to extend their theory of value in a logical way to the factors of production and the distribution of wealth among them. Ricardo limits his theory of value to commodities, and it will be remembered that J. S. Mill was criticized for not broadly coördinating his theory in this regard. Now Menger, Wieser, and Böhm-Bawerk attempt to extend their value theory to the means of production. Wieser states: "We also wished to bridge over the chasm which yawns between the theory of value and that of distribution and especially of interest."<sup>2</sup>

**Marginal Utility.**—Criticism of the Austrians' philosophical basis, of their inadequate recognition of the part played by costs, and of the one-sidedness of their interest theory, has already been suggested. It remains to consider the meaning and importance of marginal utility, the concept which is the center of the Austrian School's economic thought. The one great criticism results from their failure adequately to analyze marginal utility, a failure which accounts for their one-sided adoption of a single element in the complex marginal-utility concept as representing the whole.<sup>3</sup> The Austrians centered upon the want, although marginal utility is itself an expression not only of wants,

<sup>1</sup> *The Theory of Value*, *Ann. Amer. Acad.*, II, 603.

<sup>2</sup> *Ibid.*

<sup>3</sup> For criticism of the Austrians see the writings of Dietzel, Lexis, Gerlach, and Bortkiewicz, in German; Bonar, Carlisle, McVane, Veblen, and Davenport, in English; Landry, in French; and Loria, in Italian.

but also of limitations upon the satisfaction of wants set by supply conditions. But more than this,—in addition to their one-sidedness,—their treatment of wants and utility shows serious shortcomings.

(1) On the utility side, then, (a) their theory has the limitations of one based upon a pleasure-and-pain psychology (Hedonism). In building up a theory of value, their fundamental hypotheses deal with mere sensations, or possibly feelings; although sensations are not, as such, pleasures, nor are pleasures desires, nor are desires values. We may have sensations without desire, and desires without sensation. Therefore sensation cannot be the basis of value. The true chain of causation is: First, the character and desire disposition of the person; second, the desire; third, the gratification of the desire. The pleasurable sensation (if one is involved) does not determine the desire, but depends upon it. (b) The Austrian theory is too individualistic—too rationalistic, in that it overlooks important institutional facts and important motives. The individual's desires depend largely upon impersonal valuations which are affected by participation with others in social valuation processes. Customs and moral judgments affect him. Also much non-rational psychosis affects him, as for example the important part played by instincts. Put in general terms, the Austrian theory is too abstract. (c) It cannot be said that the Austrians have succeeded in bridging the gap between individual sensations and the phenomena of market value or price. Marginal utility is a purely individual phenomenon. It is difficult, to say the least, to compare men's judgments, on account of differences in sensibilities, tastes, and purchasing power. Yet such a comparison is necessary to secure an exchange value. In no real sense can there be a social marginal-utility scale. The Austrians leap from a purely subjective basis to a conclusion concerning objective phenomena. (d) The relation of marginal utility to value is not scientifically demonstrable, but at best rests upon a loose, empirical basis. No exact measurement is possible,

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as value is not a quantity in the mathematical sense; and, while value may generally move in the same direction as pleasurable sensation, — if and when related to such sensations, — no quantitative relation can be assumed.

(2) On the marginal, or supply-limitation side, the Austrian theory is subject to the following adverse criticisms.

(a) The margin is but an index of a total situation, and the marginal unit is marginal only because the total number of units is what it is. In fact the total utility is greater than "marginal utility  $\times$  number of units." This fact the individual may recognize, and in case he anticipates possible scarcity his valuation will be affected. (Thus we account for the Austrians' insistence on the assumption that additions can be made to the stock of goods under consideration.)

(b) The essentiality of a consideration of cost, such as has not been given by the Austrians, has already been stated. They have failed to cover the valuations of producers or sellers and the determination of sellers' offers, a difficulty which they try to escape by reducing cost to utility and by minimizing the seller's part in exchange. Under this head, a point deserving criticism is the adoption of a conception of cost which makes it depend upon utility; thus, by definition, eliminating consideration of what may crudely be called pain cost. We find the Austrians referring the cost of one good to the utility of another that must be given up to get the former; and so on without end. In short, costs only exist when alternatives exist and are then measured by the opportunities that present themselves. They do not see that when we come to production an "opportunity" can only be measured by comparing the *net* advantage of taking one alternative with the *net* advantage of the other, — the net advantage is only found by comparing income with expense; and that expenses are what they are because of the unwillingness of men to undergo risks and fatigues of production. This shortsightedness is associated with a narrow individual point of view; for it is only an individualist who could be content to stop in his analysis of cost with "outlay

expenditure " and not inquire why such outlay is necessary. The individual business man takes his "expenses" for granted; but the economist, in the interest of society, will ultimately go back of expenditure to the causes that limit the factors for which the outlay is made.

(3) The theory does not cover all important value phenomena, and the exceptions are so important as to overthrow the "rule." Among these exceptions are the following: All cases of imperfect competition and of barter, cases of one-sided competition (among sellers), reproducible goods, labor (?), money (?). A hypothesis which will not work in cases of monopoly nor unless the "marginal pairs" are very close together, which forces one to resort to the cost of a substitute when a good can be duplicated, and which has not been successfully applied to labor and money, is not satisfactory as the basis for a theory of economic value.

The absence of any adequate treatment of wages is a notable deficiency in the Austrian writings.

It is the generally accepted fact that the leaders of the Austrian School have served to broaden and clarify our ideas by emphasizing the subjective; but perhaps a majority of economists will now admit that both the novelty and the destructive character of their theory have been overdrawn. Objective limitations remain as important factors necessary to the explanation of valuation levels.<sup>1</sup>

<sup>1</sup> This, in the last analysis, is all that Professor Veblen means when he points out that the marginal-utility theory is optimistic, teleological, and not based on a cause-and-effect relationship. By adopting a purely subjective standpoint, for example, man is regarded as acting upon future consideration with an abstract belief in his power to control his destiny. And, in assuming that men act merely upon estimation of prospective pleasures and pains, a truly scientific cause-and-effect basis is impossible. (Cf. Veblen's article in *Jr. Pol. Econ.*, XVII, 620 (1909).)

*D.* GENERAL ACCOUNT OF RECENT  
LEADING SCHOOLS



## I. ECONOMIC THOUGHT IN THE LATTER PART OF THE NINETEENTH CENTURY

THE difficulty of presenting an accurate concise account of recent and contemporaneous economic thinkers and their thought is great. They have not acquired a perspective. In some cases, even, there can be no certainty that the thought is quite complete. A hundred years hence what is here written may seem inconsequential, and the important thinkers and thoughts appear slighted. Obviously, too, such an account opens an easy door to bias. Nevertheless, certain advantages are to be gained from the attempt at a record which is more than a mere catalogue of names and dates. The younger reader or the busy man sees a reference to Schmoller or Graziani or Molinari, or he picks up a translation of some text by Laveleye, Loria, or another, and if he has in mind some general characterization of the conditioning factors in the author's work, he is enabled to meet the book with some basis for independent judgment. It is desirable as helping one to become oriented in the world of thought around him, and to realize that all the time he is advancing in a broad stream of ideas which issues from many points of view.

The following chapters also serve to round out the foregoing discussion of various general tendencies, as it were, capping the climax with a summary of existing schools. And the significance of national boundaries in the molding of economic thought is further emphasized.

Partly with the idea of lessening the difficulty of this part of the work, certain limits have been arbitrarily set and should be noted in advance. Thus no attempt has been

made to cover the field since 1900. Though it would be unreasonably artificial to draw a "dead line" through that year, and some later developments will be referred to, the discussion virtually ends with the closing of the nineteenth century. Furthermore, the field in space is not all-embracing, for no attention has been given to the economic thought of Russia, Scandinavia, Holland, and Spanish-speaking countries. The three first named have each produced excellent economists. It still remains true, however, that the stream of economic thought would not be different had these men not written; while no ground of continuity demands a discussion of them.

## CHAPTER XXXI

### ECONOMIC THOUGHT IN GERMANY AND ITALY DURING THE LATTER PART OF THE NINETEENTH CENTURY

**Germany.**<sup>1</sup> — As already stated, Smith's system of economics at first had little effect on German thought, only to be rather closely followed later. Then Rau's *Lehrbuch* held the field down to about 1870; von Thünen and Hermann, two of Germany's greatest theorists, had little influence during their own lifetimes.

*Scope and Subdivision of the Science.* — This sketch — for it can be no more — of the more recent developments in German thought may well open with Roscher, whose *System* appeared in 1854, being notable for its historical tendency and breadth of view. And the first point that demands attention is the German notion of the scope and subdivision of the science. Roscher put first the *Grundlagen der Nationalökonomie*, dealing with general theory and the interrelation of economic phenomena. Then came his treatment of technical branches (such as the economics of agriculture) and of the economic activity of the state; and finally finance.<sup>2</sup>

Somewhat similar tendencies appear in more recent works.

<sup>1</sup> The most valuable source is found in *Die Entwicklung der deutschen Volkswirtschaftslehre im neunzehnten Jahrhundert* (Leipzig, 1908), especially the *Erster Teil*. This work contains numerous articles by eminent scholars; published in honor of Schmoller's birthday.

See also Palgrave's *Dictionary*; Phillipovich, *Quart. Jr. Econ.*, Jan., 1891; Taussig, *ibid.*, Oct., 1894; Cohn, *Hist. of Pol. Econ.*, Suppl. to *Ann. of Amer. Acad.*, 1894; *Handwörterbuch d. Staatsw.* under the various names, manuals of Ingram, Eisenhart, etc. Cusumano's *Scuole Economiche della Germania* is a valuable older work; also Meyer, *Die neuere Nationalökonomie in ihren Hauptrichtungen* (3d ed., 1882).

<sup>2</sup> The titles of his volumes were:

I, *Grundlagen*; II, *Nationalökonomik des Ackerbaues*; III, *Nat. ök. des Handels u. Gewerbfleisses*; IV, 1, *System der Finanzwissenschaft*.

Thus Conrad (*Grundriss*, 1900) divides the field into (1) *Nationalökonomie*, dealing with laws of cause and effect in economic phenomena; (2) *Volkswirtschaftspolitik*, treating of the functions of state and society; (3) Finance; (4) Statistics. Also Wagner, after first developing a *Grundlegung* in which he defines and correlates such fundamentals as economic motives and property, distinguishes theoretic national economy from the practical branches; and finance, though it is a part of the latter, is given a separate place. Indeed, Wagner comments upon the fact that there is no fundamental logical basis for any of these divisions; simple expediency warrants it.

Not unnaturally those opposed to the historical method give historical economics a distinct and less important place. Menger (1883), for example, distinguished three branches: historical, theoretical, and practical, the last to cover state policy and such particular practical subjects as finance. Phillipovich's distinction between systematic and evolutionary-historic economics (*Grundriss*, 1893) further illustrates the idea.

This relatively sharp separation between theoretical and practical or applied economics, which is on the whole an admirable characteristic of German thought, is doubtless to be associated with the Kameralistic origin of German economics. To the police (*Polizei*) and finance of the Kameralists, the theoretical system of Smith was added. Furthermore, it is generally true that in Germany to-day a close relation between state and university obtains which leads to an emphasis of the practical or political aspects of the science. While this may result in a desirable realism, it has its dangerous side; for the *Polizei* may color the *Wissenschaft* and the university become the tool of a state which is not society.

As Cossa remarks,<sup>1</sup> however, the distinction between pure theory (science) and practice (art) must not be confused, as it has been by some writers, with the distinction between

<sup>1</sup> *Introduction to Political Economy*, p. 401.

the general and the special, although very often the former distinction leads to a treatment of subjects according to the latter.

The prominence given to statistics may well be observed, Conrad and others having pointed out its place as a distinct branch of economics.

In general, in these matters, German thought is not so different from that of others as formerly. Germans realize that their subdivisions really grow out of mere expediency in presentation; and the French- and English-speaking economists often add a separate treatment of finance to their general works.

The broader scope of German economics, with its inclusion of juristic and ethical elements, is familiar to all, and, indeed, is implied in the foregoing distinctions.

*Method.* — On the score of method there has been great variety and difference of opinion. The deepest difference lies between induction and deduction, historical and anti-historical. Schmoller, as already observed, would exclude purely abstract deductions, and favors induction from history and statistics, together with deduction from the known properties of human nature. On the other hand, the followers of Menger believe that only through abstraction and deduction can exact laws, the goal of science, be reached. Such are Wieser, Böhm-Bawerk, Sax, Zuckerhandl, and, to a less extent, Phillipovich.

The tendency to get together is seen in the position of Bücher and Wagner. The latter, while not strictly a member of the Historical School, favors a considerable use of induction from history and statistics; but, dealing largely with recent phenomena, he uses deduction more and history less than does Schmoller. Bücher (1893) has concluded that historical methods give the laws of the evolution of peoples, but that abstract deduction is necessary in dealing with the complicated exchange economy of to-day. Statistics, he believes, offer some scope for induction as a complementary and controlling process.

Then various minor categories exist: the mathematical (deductive), the statistical (inductive), and the juristic, the last-named method being most frequently associated with the Historical School's tendencies.

The most prominent German exponents of the mathematical method are Launhardt, whose *Mathematische Begründung der Volkswirtschaftslehre* appeared in 1885; and Auspitz and Lieben (1889), who have worked out price curves. These men follow in the footsteps of Jevons and Walras.

Jurisprudence, with its minute logical classifications and definitions, furnishes an example by which the economic thinkers of Germany have profited. So Knapp has treated money as a creation of the law, Neumann (*Grundlagen*, 1889) has applied the method to practical problems of taxation, and many others — like Wagner — show the same influence. In fact, it is a not uncommon tendency of German writers to go to extremes in this direction, making definitions and distinctions which are perhaps useless and are certainly not used.

German economists have been foremost in realizing the importance of statistics as a means of verifying theory and putting it on a more "positive" basis.<sup>1</sup> Knapp, Lexis (d. 1914), Inama-Sternegg, G. v. Mayr, Stieda, and Van der Borcht are recent writers who combine economics and statistical knowledge, not to mention Professor Wagner, who has applied the statistical method to banking problems. The names of Mayr (*Die Gesetzmässigkeit im Gesellschaftsleben*, 1887) and Meitzen (*Geschichte, Theorie, und Technik der Statistik*, 1886) will always be mentioned in connection with statistics; and perhaps this is the place at which to recall the valuable work of the Austrian professor, Neumann-Spallart, whose *Uebersichten der Weltwirtschaft* began in 1870, and were continued, after his death in 1888, by Juraschek.

*Schools of Thought.* — Some seven distinct tendencies

<sup>1</sup> See Cossa, *Introduction*, pp. 26-27.

may be distinguished in German economic thought since 1850. These are not all of equal importance and are not mutually exclusive, but to refer to them will help to an understanding of the present situation.

1. There has been a group of men who follow the Classical theory, pushing its conclusions to extremes, and omitting the limitations and qualifications found in the writings of the masters — *Epigonen*, as the Germans call them. Such names as Prince-Smith, Michaelis, O. Hübner, Schultz-Delitzsch, K. Braun, Treitschke, Max Wirth, O. Wolff, Böhmert, Emminghaus, and A. Meyer may by common consent be placed here. The first two were in a sense the founders of the so-called German Manchester School.<sup>1</sup> The *Vierteljahrsschrift für Volkswirtschaft und Kulturgeschichte* is the organ of this group.

2. Following List, a small group is notable as standing in opposition to the preceding, and advocating protection: Hermann, Dühring, — following Carey, — and L. Stein.

3. The Historical School. This school has been made the subject of a chapter, to which the reader is referred. Schmoller is its most prominent representative, and its chief publication is the *Jahrbuch für Gesetzgebung Verwaltung und Volkswirtschaft im Deutschen Reich* (Schmoller), together with the *Zeitschrift für Sozial- und Wirtschafts Geschichte*.

4. The Subjective School. Most of the members of this school stand for deduction and more or less criticism of the Historical School. Here come the mathematical economists above referred to, the Austrian, Phillipovich, and perhaps Dietzel, though the latter has opposed the Austrian School.

<sup>1</sup> Following the successful activity of the English Anti-Corn Law League (1846), the ideas of Cobden and Bright were transplanted to Germany, suffering some change in the process. Whereas in England the work of the Manchester group was essentially a practical one based upon an actual condition rather than an absolute system of thought, in Germany the idea of free trade was given an abstract theoretical setting, and stood for extreme individualism and free play of self-interest. The German Manchester School was undermined by List's ideas, and given a death blow by the Historical School.

Needless to say, the members of the last-named school are included.

The three remaining groups are in their various ways inclined toward Socialistic reforms: —

5. Socialism pure and simple. The founders, Rodbertus, Lassalle, and Marx, having passed away, Bebel and Liebknecht — now deceased — may be mentioned as the later-day representatives. Samter, too, has leanings in this direction.

6. The professorial Socialists, or *Katheder Sozialisten*, as they have been dubbed. The *Verein für Sozialpolitik*<sup>1</sup> is the organization which embraces most of this group, and through the *Schriften* of this union they speak.<sup>2</sup> The famous Eisenach assembly leading to the formation of the *Verein* was held in 1872, with the coöperation of the following notable economists: Brentano, Cohn, Conrad, Engel, Held, Hildebrand, Knapp, Knies, Meitzen, Nasse, Neumann, Roscher, von Scheel, Schönberg, Schmoller, and Wagner. The *Verein* was first led by Nasse, then by Schmoller. Held, Schäffle,<sup>3</sup> Schmoller, and Wagner may be named as its chief representatives. These men came together, not as the result of Socialistic agitation, but to discuss causes of and remedies for the obvious evils that go to make up the labor problem. They believe that a greater proportion of humanity should partake of the culture and well-being of the time. They infuse a considerable element of ethics. Without confusing science and art, they believe that it is the proper duty of science to observe the results of measures and to judge by rational standards.

<sup>1</sup> See E. Conrad, *Der Verein f. Sozialpolitik u. seine Wirksamkeit*, 196.

<sup>2</sup> The "Professorial Socialists" (*Katheder Sozialisten*) are not Socialists, properly speaking. They merely stand for an extension of the functions of the state to accomplish various measures of social reform, and not for any sweeping alteration in the fundamentals of our social order. The name was given as a term of reproach or criticism, and has been resented by some. It has been the source of considerable misunderstanding. The *Verein*, moreover, never stood for a complete unity of views; and with time new differences and points of alignment have arisen.

<sup>3</sup> Schäffle was not a member of the *Verein*, however; and held peculiar views concerning the possibilities of corporate organization.



Schmoller has well summed up the beliefs of the "Socialists of the Chair" concerning the ends and methods of social reform.<sup>1</sup> Reform must be gradual; the state rests on existing laws, and to change these at one stroke would expose society to lawlessness. It should be based upon a reform in the character of those participating; it must not be merely external. The demands of the state must be general and equal, appearing as a just sacrifice for the common good. And, wherever possible, the state should not take directly, but should work indirectly for a different future distribution of income. This last result may be attained through the following activities: (1) public education; (2) factory, building, and sanitation laws to further a normal family life; (3) technical and moral encouragement to small scale agricultural and industrial enterprise, where it is capable of competition; (4) recognition of trade unions, etc.; (5) tax legislation which falls upon property rather than labor, and tends to prevent swollen fortunes through progressive rates on income and inheritance; (6) restriction of dishonorable kinds of industry by laws controlling stock companies; (7) agrarian and real property laws to encourage the small farmer; (8) a more humane application of military service; (9) a more democratically administered national bank; (10) encouragement of peasant proprietors on the state domains; (11) all possible reforms in labor contract, conditions of employment, profit-sharing, and the like.

It has been charged that by the end of the nineteenth century the economic thought of Germany had come to be so dominated by the Socialists of the Chair as to threaten its progressive and scientific development.<sup>2</sup> This group appears to have gained control over the chief universities and by its acceptance of rather fixed ethical and political

<sup>1</sup> *Über einige Grundfragen des Rechts und der Volkswirtschaft. Ein offenes Sendschreiben an Herrn Professor Dr. Heinrich von Treitschke, 1874-1875*; 2d ed., Leipzig, 1904, pp. 119 ff. One of the famous controversies in economic literature. Treitschke's article may be found in *Preuss. Jahrbücher*, 1874: "Der Sozialismus u. seine Gegner."

<sup>2</sup> See Pöhl, L., *Gegenwärtige Krisis in der deutschen Volkswirtschaftslehre* (1911).

ideals threatened to subordinate the science to the policies of the State. Whether so sweeping a charge is justified or not, there can be little doubt that on the whole German economists had so allowed their energies to be absorbed by historical, statistical, and practical work, as to retard the development of economic science.

Though Adolf Wagner (*b.* 1835), now deceased, was one of those who united to form the *Verein*, he gradually took up a somewhat different position after 1877, holding to a more thoroughgoing advocacy of government activity for social reform. Indeed, he recognized the influence of Rodbertus and Schäffle, to whom, with von Mohl, he ascribed some mastership, and it may be said that he went farther toward adopting the principles of Socialism than any distinguished economist has gone. From 1878 to 1888 Wagner (and Schäffle) edited the *Tübinger Zeitschrift für die gesamte Staatswissenschaft*. He entered economics as a specialist in statistics and finance. Then, at the request of Rau's family, he undertook to revise Rau's book, but finding his views diverging more and more from that writer's, only the first part was issued in this way. His great *Lehr- und Handbuch der Politischen Oekonomie* is his chief work, and the first volume on *Grundlagen der Volkswirtschaft* (2d ed., 1879; 3d ed., 1892) contains his fundamental economic ideas. He became more and more interested in the general principles of economics, in treating which he emphasized the significance of juristic forces and the State.

7. Finally, the groups which, for want of a better name, are called *Christian Socialists* are to be noted. Perhaps "religious Socialists" would be better. These men are conservative. They are idealistic. They believe that a theological basis would be best for society. Ketteler, Moufang, and Jörg belong to the Catholic branch; Todt and Stöcker to the Protestant.

*Value Theory.* — From the standpoint of pure theory the dominant note in Germany is eclecticism. Take value theory, for example. Here one finds neither the cost nor the

utility theory clearly ascendant. On the whole, it may be said that the straight marginal-utility theory has few adherents, among which the Austrians, Sax, Zuckerhandl, and Phillipovich, deserve especial mention aside from the Austrian leaders. The marginal idea seems to have served merely to develop a neglected point, leaving the refined Classical theory, so modified as to include developments on the utility side, in the ascendant. Wagner is typical.<sup>1</sup> Two factors, he states, determine price: one is temporary, being the relation between demand and supply; the other is permanent, being the cost of production where perfect competition exists. Marginal utility functions in demand. And Dietzel would combine the rival theories, holding that the Classical theory gives ample place for the recognition of utility; simply, the Classicists saw in labor the great disposable factor which is both useful and limited in supply. So with the Historical School: Schmoller, while strongly subjective, does not accept marginal utility as the determinant of market value, believing that cost theories afford a simpler solution.

Others, like Dietzel, Gerlach, and Lexis, have severely criticized the marginal-utility theory.<sup>2</sup>

This situation has led some into a sort of doubting opportunism that might almost be classed as skepticism.<sup>3</sup> Thus Gottl, in *Der Wertgedanke, ein verhültes Dogma der Nationalökonomie* (1897), Neumann, and Diehl may be placed here. These economists believe or are inclined to believe that there is no simple and single problem of value, but perhaps several, varying with different classes of goods.

*General Characteristics.* — Some of the chief characteristics of modern German economics may be stated as follows. It stands for nationalism as opposed to individualism and

<sup>1</sup> See his *Theoretische Sozialökonomik*, 1907.

<sup>2</sup> Dietzel, in *Jahrbücher für Nationalökonomie*, 1890; *Theoretische Sozialökonomik*, 1895; Lexis, "Grenznutzen" in *Handwörterbuch der Staatswissenschaft*; Gerlach, *Über die Bedingungen wirtschaftlicher Tätigkeit*.

<sup>3</sup> So classed by Diehl in his article on "Die Entwicklung der Wert und Preistheorie," in *Die Entwicklung der Deutschen Volkswirtschaftslehre im 19ten Jahrhundert*, Erster Teil, II, 71.

cosmopolitanism. A careful analysis of the functions of the state is a service for which we must thank German thinkers. To be associated with this fact, no doubt, is their progress in scientific criticism along the line of social reform. They have seen that history evidences that private property rights are neither so comprehensive nor so absolute as at first appears: the social side of property has been illuminated. Professor Marshall says it is true, "as German writers have well urged, that economics has a great and an increasing concern in motives connected with the collective ownership of property and the collective pursuit of important aims."<sup>1</sup> In general, it is true that in Germany socio-political questions seem to be the dominant ones, and most of the younger men are critical as to the shortcomings of capitalism.

A broad analysis of economic motives is characteristic of German economic thought. From Hermann to Wagner, national, moral, and ethical factors have been more often allowed for than in English economics.

These various characteristics are accompanied by the prevalence of comparative and historical studies. Under the widespread influence of the Historical School, monographs dealing with such subjects abound. The German economist tends to take the biological or organic point of view, regarding the evolution of institutions and thus avoiding the particular form of absolutism so common in English and French economics. Some, however, have shown a certain narrowness in interpreting the views of the Classical economists, reading into their works a belief in unlimited competition, freedom of trade, etc., which is not to be found there.

Italy.<sup>2</sup>—No better illustration of the relationship be-

<sup>1</sup> *Principles*, p. 87.

<sup>2</sup> Rabbeno, "Econ. in Italy," *Pol. Sci. Quar.*, VI, 439 (1891); Loria "Econ. in Italy," *Ann. Amer. Acad.*, II, 203 (1891); Palgrave's *Dictionary*, Graziani, "Sulle relazioni fra gli studie economici in Italia e in Germania nel secolo XIX," in *Entwicklung d. deutschen Volkswirtschaftslehre*, No. XVII; Cossa, *Introduction*; Schullern-Schratenhofen, *Die theoretische Nationalökonomie Italiens in neuester Zeit* (1891).

tween industrial evolution and the progress of economic thought could be given than that afforded by recent developments in Italy. During the greater part of the seventeenth and eighteenth centuries Italy, decadent, had lost her commercial leadership and was the object of diplomatic and martial struggles among foreign powers. The forces leading to the French Revolution were not without effect, however, and accordingly we find such relatively important names as Genovesi (1769), Galiani (1770), Beccaria (1769–1771), Verri (1769, 1771), and Ortes (1774) coming to the front. Although all were limited by the undeveloped character of Italy's economic background, they advocated some measure of industrial freedom. During the greater part of the nineteenth century, however, and down to but little more than a generation ago, Italy fell behind the countries leading in economic thought; for she was torn and divided, politically and industrially, while her industrial backwardness withheld both the problems and the phenomena apparent in more advanced states. Accordingly from 1800 down to 1870 the chief contributions consisted in some scattering studies in currency and taxation, while a rather shallow optimism furnished the prevailing economic philosophy.

During this early nineteenth century period, the names of Gioja<sup>1</sup> (1767–1829) and Ferrara (1810–1900) may be noted, the latter being transitional and leading to the higher development which came after 1870. Indeed, from Ferrara may be dated the beginning of the modern development of economics in Italy. He wrote no comprehensive work but was a teacher and editor, whose views — chiefly on value, money and banking, and history of economic doctrines — are largely found in introductions contributed by him to the *Biblioteca dell' Economista*. He was a free trader. In general, his views on method, *government intervention*, and the nature of economic laws, were like those of Bastiat and the French

<sup>1</sup> Gioja wrote *Nuovo Prospetto delle Scienze Economiche* (1815–1817). He advocates large scale enterprise and industrial protection, and severely criticizes Smith and Say.

optimistic school. Ferrara is notable as being (along with the German, Dühring) a follower of Henry Carey; for he accepted Carey's peculiar rent ideas and made his cost-of-reproduction idea of value the center of his own scheme of distribution. Like Bastiat and Carey, Ferrara's thought is full of paradoxes.

But in 1870 Italy became united. Soon thereafter the phenomena of transportation, tariffs, currency, and the like, began to develop, while a single government and a united people could confront the problems which attended an evil social and financial condition. Forthwith a more scientific study of such subjects as population and public finance made its appearance. The leaders of the new movement were Messedaglia and Luigi Cossa; Nazzari and Lampertico also appear worthy of mention.

Messedaglia (1820-1901), though not a polemist, may be regarded as the central figure in the reaction against the ideas of Ferrara and the dominant "liberal school." He had little constructive power, but was a keen analyst and a careful, accurate worker, with considerable powers as a logician and statistician. Messedaglia was a trained physicist and mathematician, and he therefore reflected developments in the natural sciences and stood for the introduction of more scientific methods into economics. His best work is found in the field of statistics, monetary problems, and public loans. He will be remembered for his modification of Malthus' statement of the law of population; for he reasoned that even as a tendency the increase of population could not be in a geometric ratio — 2, 4, 8, 16; but that if the food supply falls short, the power of population to increase will be diminished and the rate of growth decreased. Thus 4 will tend to produce, not 8, but 6, the result being an arithmetic progression, though still a more rapid one than governs food.

Meanwhile the influence of German economics, which, as will be remembered, was undergoing important developments at this same time, must be observed. Both Cossa

and Nazzani studied in Germany, and the Italian reaction of 1870 was much affected by German thought.

Luigi Cossa (1831-1896) was the first modern Italian economist to win wide international recognition, and to him is due in large measure the final establishment of Italian economics on a scientific basis. The greater number of the younger Italian economists have felt Cossa's influence as a teacher or writer. He is best known by his investigations in the history of economic thought (*Guida allo Studio dell' Economia politica*, 1876), although, like so many of his countrymen, he has done good work in the science of finance (*Primi elementi di scienza delle finanze*, 1876). His *Guida*, translated into English as an *Introduction to the study of Political Economy*, besides showing an extensive knowledge of the economic literature of all countries, together with much critical ability, has a "theoretical part" which contains valuable suggestions concerning the scope and method of economics and proves the writer's claim to rank as a great systematizer. Cossa studied in Germany under Roscher and in Austria under Stein, being particularly influenced by the former, whom he calls his "revered master." Yet, on the whole, he is a follower of the doctrines of the Classical School, and, while very sympathetic with historical studies, he severely criticizes the methods of the younger historical school.

Others who helped the new movement were Nazzani, Lampertico, and Cusumano. Nazzani (1832-1904), who showed considerable critical ability, combined the doctrines of Roscher, Schäffle and Wagner with the Classical economics, although in the main he held to the Ricardian economics as developed by Senior.<sup>1</sup> Cusumano<sup>2</sup> had studied in Berlin. Lampertico,<sup>3</sup> like Nazzani, was a pupil of Messedaglia.

Naturally the influx of ideas from the German historical school and Socialism of the Chair meant war from Ferrara

<sup>1</sup> *Sunto di econ. pol.*, 1873 (a text book much used in Italy); *Saggio sulla rendita fondiaria*, 1872.

<sup>2</sup> *Le scuole econ. della Germania*, 1875.

<sup>3</sup> *Econ. dei popoli e degli stati*, 1874-84.

and his followers, among whom were Magliani, Martello, Pareto and Peruzzi. Ferrara opened hostilities in 1874, and here another of Messedaglia's pupils, Luzzati, gained some local fame by a temperate but weighty rejoinder. This writer's statement of the case, as being typical of the new Italian movement, is worth quoting from:—

"Between the Classical economists at one extreme and the socialistic iconoclasts at the other, there is to-day a mediation in the historical or inductive school. . . . Its adherents do not admit *a priori* either harmony or contradiction of interests. They investigate the world as it is, and not as it ought to be. . . . They admit liberty as a principle. . . . They respect and uphold progress equally with liberty; and where compulsory social action, *i.e.* the action of the state, serves to prevent conflicts which liberty promotes and to procure benefits which liberty obstructs, they accept in their economic proceedings a directive action."<sup>1</sup>

The new school founded the *Giornale degli Economisti* in 1875 as its organ,<sup>2</sup> and the editors— notable among whom was Forti— spread German economic ideas.

Aside from the older leaders such as Ferrara, Messedaglia, and L. Cossa, the most important Italian economists, as judged by work done between 1875 and 1900, appear to be Graziani, Loria, Pantaleoni, Pareto, Rabbeno, and Ricca-Salerno; although when the lapse of time has given a true perspective such men as Supino and Conigliani (*d.* 1901) may replace some of these.

Ricca-Salerno (*b.* 1849) was a pupil of Wagner and holds a somewhat eclectic position concerning method, tempering a Classical basis with a knowledge of historical criticism.<sup>3</sup> He follows Sax in financial theory,<sup>4</sup> applying the deductive method and the marginal-utility analysis. Graziani and

<sup>1</sup> *Giornale degli Economisti*, Sept. 1875. Cited by Rabbeno in *Pol. Sci. Quar.*, VI, 444.

<sup>2</sup> Discontinued 1878; reestablished in 1886 by Zorli. He had the coöperation of Pantaleoni, Mazzola, and De Viti.

<sup>3</sup> *Del Metodo in Economia politica*, 1878.

<sup>4</sup> *Scienza delle finanze*, 1888.



Conigliani are his pupils. Graziani has written well on machinery and wages, stock exchanges, and other subjects in applied economics.<sup>1</sup> He accepted the Austrian theory of value.<sup>2</sup> Conigliani (*d.* 1901) in his work on taxation adopted the leading ideas of Sax.<sup>3</sup>

Pantaleoni may also be classed as an economist who has been largely affected by German thought, for he shows the influence both of Wagner and of the Austrian School. His *Principii di Economia Pura* (1889) has been translated into English as *Principles of Pure Economics* (1898) and is one of the best known Italian works. Pantaleoni appears to be at bottom an adherent of the Classical or neo-classical school, for he defines economics much as Senior did, reconciles marginal utility and marginal cost or disutility,<sup>4</sup> and opposes the interest theory of Böhm-Bawerk. His book on the incidence of taxes was notable as an early work.<sup>5</sup> Vilfredo Pareto has sufficient similarity to Pantaleoni to warrant putting the two in the same paragraph. Pareto is a mathematical rationalist, in many respects like Walras. He united with Ferrara to oppose the Socialists of the Chair. His treatise on political economy<sup>6</sup> (1896) presents a clear discussion of the determination of objective exchange value, analyzing demand and supply with precision. His proposed substitution of the term "ophelimity" for "utility," on the ground that the latter is not satisfactory for scientific use, is meritorious and well known. The idea of a definite pro-

<sup>1</sup> *Studi sulla teoria Economica delle Macchine*, 1891; *Teoria delle operazioni di borsa*, 1890.

<sup>2</sup> *Storia critica della teoria del valore in Italia*, 1889.

<sup>3</sup> *Teoria degli effetti economici delle imposte*, 1890; concerning Sax, see above, p. 558.

<sup>4</sup> He writes: "But whoever admits this, must recognize that the new doctrines of the final degree of utility are a no less unexpected than crushing demonstration of the precision, elegance, and truth of all the theorems of the orthodox and classic economists." Pantaleoni says that "we possess two works of capital importance, the study of which is indispensable to any one who would perfect himself in economics:" Marshall's *Principles* and Pareto's *Cours*.

<sup>5</sup> *Teoria della traslazione dei tributi* (1882).

<sup>6</sup> *Cours d'économie politique*, 2 vols., Lausanne, 1896; has interesting discussion of rent, entrepreneur, and diminishing returns in production.

portion required among the factors of production in order to insure economically successful results, is sometimes called Pareto's Law. Pareto's name is also associated with a law of the inequality of the distribution of wealth, based upon statistical data which show that the larger the fortune the smaller the number of those who possess it.

Loria deserves a separate paragraph, not because his views are more sound, but because they are more original than those of his fellows.<sup>1</sup> He makes a study of real property the basis for an attack upon the present system of distribution. Though Loria by no means accepts the organic conception of society, his peculiar contributions largely lie in the field of sociological economics. He follows a hedonistic philosophy and a purely economic interpretation of history; morals, law, and politics are not causes, but results, of economic conditions. But land is the corner stone of the system. Capitalistic property is founded upon the violent suppression of free land. Thus no mere laws could remedy present evils, but only a diffusion of property. In his latest writings he defends the right of each man to land, and, as a practical remedy, suggests the payment by employers of a "territorial wage" for a term of years, with the idea that at the end of the period substantial equality would exist — as in "final" or primitive society — and coöperation could be hoped for.<sup>2</sup> Loria appears to overlook the significance of bases for capitalization other than land; and few will accept so rigidly economic an interpretation of human motives and history.

Following the classification adopted in discussing the German schools of economic thought, one finds that all the groups are similarly manifested among the Italian economists active between 1870 and 1900. Two notable exceptions, how-

<sup>1</sup> Chief works: —

*La rendita fondiaria e la sua elisione naturale*, 1879.

*Analisi della proprietà capitalista*, 1889.

*Studi sul valore della moneta*, 1891.

*La terra ed il sistema sociale*, 1892.

<sup>2</sup> *Costituzione economica odierna*, 1900. See also *La rendita fondiaria e la sua elisione naturale*, 1879; and *Economic Foundations of Society*, London, 1899.

ever, are to be found: The protectionist policy has little or no hearing among Italian economists, and the more radical doctrines of Socialism have almost as weak a following.

While there are probably no mere *Epigones* among the Italians mentioned, a number may be classed as being on the whole adherents to the English Classical School, among these being Boccardo, L. Cossa, and Nazzani. Ferrara is to be classed with French Liberalism. Ricca-Salerno, like Cossa, modifies classicism by adopting views of the Historical School. Pantaleoni is neo-classical and mathematical. More akin to the German "Manchester School" are the *laissez-faire* individualists, Martello, Berardi, and Bertolini, whose ideas have been represented in *L'Economista*. They are optimists and stand for free trade.

Within the historical group several sub-groups may be distinguished. Some are barely touched with the historical spirit, such as Nazzani, Alessio,<sup>1</sup> and perhaps Lampertico. Others resemble the older historical school—and even Roscher, the least radical of them—among these being L. Cossa, E. Cossa,<sup>2</sup> and Gobbi.<sup>3</sup> Loria<sup>4</sup> and Cusumano<sup>5</sup> go further than Cossa in their emphasis of historical relativity. Finally come a few representatives of the extreme type of the younger historical school, these being represented by Schiattrella,<sup>6</sup> Cognetti<sup>7</sup> (1844–1891), and others. Ricca-Salerno,<sup>8</sup> Fornari,<sup>9</sup> Toniolo,<sup>10</sup> and Supino<sup>11</sup> may also be classed as members of the Historical School.

<sup>1</sup> *Saggio sul sistema tributario in Italia*, 1883–1887.

<sup>2</sup> *Le forme naturali della economia sociale*, 1890.

<sup>3</sup> *La concorrenza estera e gli antichi economisti italiani*, 1884; *L'economia politica negli scrittori italiani*, 1889.

<sup>4</sup> *Teoria del Valore negli Economisti Italiani*, 1882.

<sup>5</sup> *Del economia politica nel medio evo*, 1876; *La teoria del commercio dei grani in Italia*, 1877.

<sup>6</sup> *Del metodo in economia sociale*, 1875.

<sup>7</sup> *Delle attinenze tra l' economia sociale e la storia*, 1865; *De forme primitive dell' evoluzione economica*, 1881.

<sup>8</sup> *Del metodo in Economia politica*, 1878; *Storia delle dottrine finanziarie*, 1881.

<sup>9</sup> *Delle teorie economiche nelle provincie Napolitane*, 1882–1888; *Antonio Serra e Marc' Antonio de Santis*, 1879.

<sup>10</sup> *Remoti fattori della potenza economica di Firenze*, 1882; *Scolastica ed Umanismo nelle dottrine economiche*, 1887.

<sup>11</sup> *Scienza economica in Italia*, 1888.

It must be noted that most of these men stood for a degree of eclecticism not associated with the most typical members of the German school, and held fast to a larger part of the Classical English economics.

Closely connected with the historical school is a group of sociological economists, several of whom have been much influenced by Spencer: Schiattrella, Boccardo<sup>1</sup> (1829–1904), Cagnetti, and Rabbeno. Rabbeno (*d.* 1897) in his thought shows a concrete, practical turn of mind, an inductive method, and sociological tendencies. His chief works<sup>2</sup> (1883–1892) deal with labor, coöperation, and American protectionism.

State socialism — including most of the “socialists of the chair” — has Ferraris<sup>3</sup> as its chief representative, and Cusumano, Forti, Montara, Supino, and Toniolo may be classed here. Lampertico and Luzzati also held some of the ideas of this group. Ferraris is one of Wagner’s pupils.

The conflicting German tendency, found in the Austrian School, has been active in Italy, as would be inferred from its adoption by such men as Graziani,<sup>4</sup> Mazzola (1863–1899), E. Cossa,<sup>5</sup> Conigliana,<sup>6</sup> and Alessio.<sup>7</sup> Ricca-Salerno also adopted much of the Austrian theory. As already indicated, Pantaleoni accepts the marginal-utility idea of value in an eclectic sort of way, but by no means follows the Austrian School in their typical conclusions concerning cost

<sup>1</sup> Boccardo succeeded Ferrara as editor of the *Biblioteca dell' Economista*. He was a free trader and published his *Tratto teorico-pratico di economia politica* (1853) in the spirit of Mill. He was influenced by Spencer.

<sup>2</sup> *L'evoluzione del lavoro*, 1883; *La cooperazione in Inghilterra*, 1885; *La cooperazione in Italia*, 1886; *Le società cooperative di produzione*, 1889; *Il protezionismo Americano*, 1892.

<sup>3</sup> *Saggi di economia statistica*, 1880; *Moneta e corso forzoso*, 1879; *L'Assicurazione degli operai*, 1888; *Principii di scienza bancaria*, 1892.

<sup>4</sup> *Storia critica della teoria del valore*, 1889.

<sup>5</sup> *Le forme naturali della economia sociale*, 1890; *Primi elementi di economia agraria*, 1890.

<sup>6</sup> *La riforma delle leggi sui tributi locali*, 1898; *Saggi di Economia politica*, 1903.

<sup>7</sup> *Saggio sul sistema tributario in Italia*, 1883–1887; *Studi sulla teoria del valore nel cambio interno*, 1890.

and interest. After all, it is in finance that the Austrians have made most converts in Italy.

This most recent tendency has found determined resistance, Supino,<sup>1</sup> Loria,<sup>2</sup> and Rabbeno having broken valiant lances in attacking it. These critics seem agreed that the emphasis of "marginal utility," including as it does the ideas of utility and scarcity in a single word, means little but a change in terminology, while they regard the purely subjective tendency as one-sided and as leading to the use of standards which cannot be precise.

All authorities seem agreed that the Italians have a notable tendency to eclecticism in economics. They soften and harmonize the teachings of various schools. Beginning with the Classical economics, they fell under the influence of Bastiat and Carey, and somewhat modified the English doctrines in the direction of optimism. To this condition came the historical tendency, out of which admixture arose the dominant historico-liberalistic eclecticism of recent times. Even the marginal-utility theorists make some modification, approaching more closely the Classical theories, and so making a fusion with the other group less difficult.

When all has been said, it remains true that well down to the close of the last century the original contributions of Italian thought to the progress of economic science had been slight. But as Italy develops industrially, and as Italian thinkers enrich the soil of a national economic literature, those useful studies in the history of Italian theory led by L. Cossa will surely bear fruit.

<sup>1</sup> *Giornale degli Economisti*, 1889.

<sup>2</sup> *Nuova Antologia*, April 1, 1890.

## CHAPTER XXXII

### ECONOMIC THOUGHT IN ENGLAND AND FRANCE IN THE LATTER PART OF THE NINETEENTH CENTURY

**England.**<sup>1</sup>—The more recent developments in the economic thought of England have been touched upon to some extent in preceding chapters. Thus Jevons has been discussed; and the concrete-historical work of Bagehot, Leslie, Toynbee, Rogers, and Ingram has been outlined. Thornton and others, too, were mentioned in connection with the downfall of the wages-fund theory. In short, the way has been prepared for a brief general statement of the English economics and economists of very recent times.

For about a generation after 1850 the Ricardian economics as restated by Mill reigned supreme in England. Its spirit and that of its followers were quite absolute and dogmatic. To be unorthodox in economics was a serious reproach. The tone of the whole system was decidedly materialistic and neglectful of ethical factors, and, needless to say, deduction was its logical weapon.

Henry Fawcett (1863) and John Elliott Cairnes (1824–1875) may be named as the leaders of the later Classicists. Fawcett did little more than present a compendium of Mill's economics. Cairnes, however, was an acute and original thinker, whose works, entitled *Some Leading Principles of Political Economy* and *Character and Logical Method of Political Economy*, have had much influence.<sup>2</sup> The former

<sup>1</sup> Besides the works of the authors referred to, see Foxwell, "Economic Movement in England," *Quart. Jr. Econ.*, II (1887); Ashley, "The Present Position of Pol. Econ. in England," in *Die Entwicklung d. Deutschen Volkswirtschaftslehre*, Erster Teil; Palgrave's *Dictionary*; Price, *Political Economy in England*; etc.

<sup>2</sup> Cairnes' chief works: *The Character and Logical Method of Political Economy* (1857; 2d ed., 1875); *The Slave Power* (1862); *Essays in Political Economy, Theoretical and Applied* (1873); *Some Leading Principles of Political Economy* (1874).

is notable for its portions on Value and International Trade. It is in the part on value that the author discusses *non-competing industrial groups*,<sup>1</sup> the theory of which will ever be associated with his name. In view of Thornton's and Jevons' attacks upon the Classicists, Cairnes restates and modifies the theory of value, emphasizing the effect of prospective supply, and defining demand as desire accompanied by purchasing power measured by the quantity offered. At this point he severely criticizes Mill.<sup>2</sup>

In method, he was on the whole deductive. He held that with nothing but strict induction the economist could reason till the crack of doom and get nowhere. His definition of economics is typical: "the science which, accepting as ultimate facts the principles of human nature, and the physical laws of the external world, as well as the conditions, political and social, of the several communities of men, investigates the laws of the production and distribution of wealth, which result from their combined operation." As compared with Ricardo, the method pursued by Cairnes was an advance, in that he did put many of his deductions to the test of facts.

Cairnes, however, is open to criticism on the score of narrowness. He hardly grasped Jevons' idea of final utility, and consequently saw no good in it. Similarly he was inclined to state too absolutely the application of his non-competing groups.

But, in a way, Cairnes was in his day the last of the English classicists. Forces were at work which wrought great modification in the old point of view. In the first place came a broadening of economic analysis which arose from a recognition of the interrelation of ethical factors; it became affected with a humanitarian interest. The labor movement was largely responsible for this development. In the same year that Cairnes died (1875), Parliament passed the Conspiracy and Protection of Property Act, and shortly thereafter the Trade Union Acts (1871, 1876), which legislation gave greater legal rights to organized labor.

<sup>1</sup> *Part I, Chap. III, § 5.*

<sup>2</sup> *Ibid.*, Chap. IV, § 3.

Toynbee was only one of many whose thought was largely colored by sympathy for labor. The attacks of Carlyle (*Past and Present*, 1843), and of Ruskin,<sup>1</sup> too, no doubt had their effect.

At the same time the criticisms of the Historical School were working to give a less absolute and abstract cast to English thought. This development began notably with Leslie, who had been influenced by Sir Henry Maine and the German school. It is interesting to note that, just as in the case of France herself, England's attention was attracted to Germany and German thought as a result of that nation's success in the Franco-Prussian war (1870).

And, oftentimes associated with the historical point of view, there came a notable development in the biological sciences. The names of Spencer, Darwin, and Huxley cannot pass unmentioned here, for their philosophy and method have had no small influence upon economic concepts.

It is difficult to say just what progress has been due to the mere activity of theoretical criticism proceeding from within, as it were, and uncolored by the above developments from without. For example, it might not be easy to say how much of the downfall of the wages-fund theory was due to the activity of labor organizations, and how much due to a recognition of the inherent logical weakness of the theory. Such progress, however, has been exemplified in the work of Cairnes, Jevons, Marshall, and J. A. Hobson; and the theories of the American economist, F. A. Walker, had great influence in England.

All these developments involving the overthrow of "orthodoxy" came to a head in the decade 1870-1880, and, for a time, economics was a much discredited science.

Meanwhile, there had been no effective teaching of economics in the colleges and universities, — "no real working professorship of political economy in Great Britain comparable to the ordinary professorships in any German uni-

<sup>1</sup> E.g., *Munera Pulveris*, 1872; *Unto this Last*, 1860; *Fors clavigera, Letters to the Workmen and Labourers of Great Britain*, 1871-1884.



versity," as Professor Ashley puts it.<sup>1</sup> Then Jevons made the most of a chair of political economy and logic at Owens College; a chair was founded at Edinburgh in 1871; and, above all, in 1885 the chair at Cambridge was taken by Professor Marshall, insuring effectiveness at one of the older universities. In 1890 the British Economic Association was founded, and the following year the *Economic Journal*, with Professor Edgeworth as editor, became its organ. The *Economic Review*, the organ of the Christian Social Union, was established in the same year. From this time on the spread of economic teaching was rapid.

When one turns to the question, to what extent are the various schools or tendencies in economic thought represented in England, notable absences appear in the case of that active spirit of social reform in academic circles, often somewhat misleadingly called "Socialism of the Chair," and also in the case of the optimism found in France, Italy, and the United States.<sup>2</sup> For the rest, the Historical School is represented by such men as Rogers, Cunningham, Ashley, and Unwin; the Austrian or marginal-utility idea by Wicksteed, Edgeworth, and Smart; and the Classical School by Sidgwick (1838-1900), Nicholson, and Marshall. Wicksteed and Edgeworth are prominent exponents of the mathematical method, in which Marshall is also an adept.

Henry Sidgwick's *Principles of Political Economy* was published in 1883, and undoubtedly did much to regain for economics some of the respect it had lost. The book is based upon Mill, amended by Jevons' theory, with Walker's wages theory included. It is notable, too, that the Germans, Held and Wagner, are referred to. Sidgwick lays marked emphasis upon the theory of value and exchange. While holding that Mill's theory of value is sound in the main, he points

<sup>1</sup> Just as in France, some of England's best economic thought has come without academic circles. In more recent times there are, to mention just a few, Bagehot, Booth, Rowntree, Palgrave, Webb, and Hobson.

<sup>2</sup> The latter line of thought is to some extent represented by the statesman, Robert Giffen. Perhaps J. A. Hobson, though outside academic circles, might be classed as a representative of the former movement.

out that "equation of supply and demand" is deficient as an explanation of exchange value when both supply and demand vary with price. The fact that cost is to some extent determined by demand is also indicated.

In connection with the theory of international values, Mill is again criticized, and originality is shown in the discussion of the importance of cost of carriage in the problem.

Sidgwick analyzes the Ricardian theory of rent into a confusion of three different ideas: (1) a historical theory of rent origins, (2) a static theory of present tendency, (3) a dynamic theory of tendency to increase in the future as population and wealth increase.<sup>1</sup> This point is characteristic: Sidgwick's work is subtly analytic, and his critical examination of the fundamental concepts of economics is noteworthy.

Alfred Marshall, until recently Professor of Political Economy at Cambridge, is admittedly the greatest living English economist. Indeed, there is, perhaps, no contemporary economist who surpasses him in constructive general theory. Marshall's chief works are *Economics of Industry* (1879) — with Mrs. Marshall as joint author — and *Principles of Economics*, 1890 (5th ed., 1908).

Marshall's great work has been to take the English Classical economics at a time when it had fallen into considerable disrepute, and, by interpretation and modification, so to round it out and adjust it as to place it abreast of the best recent thought, and regain for it the respect of the world. A recent criticism of economic theories has a chapter headed, "The Attempt at Reconciliation; Marshall,"<sup>2</sup> and this is a fairly good characterization. "Marshall's synthesis" might have been better.

On the whole, Marshall falls in the Classical — or, perhaps, Neo-Classical — school, and his most frequent logical weapon is deduction. But he seeks the truth in the golden

<sup>1</sup> Book II, Chap. VII, § 1.

<sup>2</sup> Davenport, *Value and Distribution*, Chap. XX. It is true that Marshall may be justly criticized for reading too much into the words of the old English economists.

mean. He calls a halt to mere historical grubbing and organic metaphors, asking for careful and rigorous reasoning, and declaring that "the growing prominence of what has been called the biological view of the science has tended to throw the notions of economic law and measurement into the background."<sup>1</sup> Yet he accepts the idea of relativity, and recognizes the contributions of biological sciences. He rejects Comte's idea, according to which economics would be fused in a general social science, and defines economics as dealing with those motives and desires of man which can be measured by money.<sup>2</sup> On the other hand, he writes: "Even for the narrower uses of economic studies, it is important to know whether the desires which prevail are such as will help to build up a strong and righteous character,"<sup>3</sup> and does due homage to German analysis of motives. Both induction and deduction are recognized as having their places, and Schmoller is quoted with approval. Simply, where there is still uncertainty as to causes, analysis and deduction are needed. History shows that one event follows another; but the historical method does not show the causal connection. Marshall holds that enough of generality exists in certain economic characteristics to base general laws upon: that, making the usual allowance for equality in conditions, there are laws or tendencies which resemble the secondary laws of natural science. But in economics they must be handled with peculiar care.<sup>4</sup>

Marshall's economics certainly has a practical element in it; nor is it free from "preaching" and advocacy of reforms. This side, however, does not seem to warp the scientific character of the conclusions.

Marshall has brought together in a masterly way the Austrian analysis and the cost concepts of his English predecessors. Utility is one side of the arch whose keystone is value, or one blade of the pair of scissors, with cost as the other. Both blades cut. They mutually determine. Thus

<sup>1</sup> *Principles*, 4th ed., p. 72.

<sup>2</sup> *Principles*, 4th ed., p. 77.

<sup>3</sup> With due limitations.

<sup>4</sup> See pp. 93, 101.

he avoids the one-sided emphasis of each school, and makes marginal utility the two-sided thing that it is. Though at points he appears to confuse price — a ratio between marginal utilities — with the marginal utility of the thing purchased,<sup>1</sup> his treatment of “demand price” is sound, and is a contribution to economics.<sup>2</sup>

In the light of recent developments in thought concerning differential returns, Marshall has broadened the Classical theory of rent along lines already suggested by J. S. Mill. He by no means sees the necessity or expediency of abandoning a recognition of the peculiarity of land rent, but adopts the term, “quasi-rent,” to denote those less permanent differentials which may be yielded by the superior productivity of units of capital or labor.

The device of the “representative firm” is one of the more questionable characteristics of this author’s thought. Such a firm is one which, as others rise and fall, continues on an average level of prosperity while meeting normal (or average?) expenses for labor, including management and capital. This representative firm serves somewhat the same end in his reasoning that the marginal one ordinarily does for others. Marshall’s device may be merely an expression of his belief that under his assumptions as to competition, and *in the long run*, all producers just meet normal expenses and, in this sense, all are marginal. Thus it would be valid — if not useful — for long periods, but would be indefinite, and perhaps misleading, for shorter periods.<sup>3</sup>

One of the most notable features of Marshall’s thought is his development of the idea of the surplus. He includes not only land rent, as a surplus above cost, but also the vaguer ideas of “consumers’ surplus” and “workers’ surplus.” The former appears to rest largely upon a psychological basis, and is briefly defined as the excess of the total utility of a

<sup>1</sup> *E.g.*, p. 174. See Davenport, as above cited.

<sup>2</sup> See Bk. III, Chap. II, §§ 2 ff.

<sup>3</sup> It suggests Adam Smith’s reasoning as to labor and value. See above, pp. 205 f.

commodity over the "real" value of what is paid for it.<sup>1</sup> The consumer of matches, salt, and newspapers enjoys or may enjoy such an excess. It might also be called a net benefit derived from fortunate surroundings or conjuncture. Workers' surplus, on the other hand, is the excess of remuneration coming from payments for total work made at the same rate paid for the last and most costly part,—with a deduction for the trouble of acquiring skill, etc.<sup>2</sup> Similarly, a savers' surplus is distinguished in the case of the capitalist. These surpluses, it will be observed, are not measured from the payments necessary to secure the coöperation of the factors of production, nor from the subsistence level; but depend upon sensibilities and their elasticity, and upon surroundings. Marshall's treatment of quasi-rent also makes it a temporary surplus on all material agents, it being the excess of total money returns over the direct outlay. While it is well to call attention to such matters as a possible consumers' surplus, and the idea has been widely adopted, its value in a purely economic analysis may be questioned.

In this connection Hobson's treatment of surplus will not be forgotten. In his *Economics of Distribution* (1900), he reasons that distribution is carried on through the fixing of market prices, accompanied by a process of bargains in which, by the superior economic strength or cunning and varying differential estimates of buyers and sellers, a "forced gain" is obtained, leaving the weaker bargainers a bare minimum inducement. "Thus emerges the true surplus value, derived not from some vague, unintelligible idea of tyranny, but from the various hindrances to perfect equality of bargaining-power in the owners of the various factors of production, and the consequent establishment of different forms and pressures of economic force."<sup>3</sup> Ac-

<sup>1</sup> *Principles*, 4th ed., pp. 124, 830.

<sup>2</sup> *Ibid.*, p. 830.

<sup>3</sup> P. 360. Hobson holds to a large part of the framework of the Classical doctrines (*Economics of Distribution*, 1900), but rejects the ideas of the beneficence of competition, and, apparently, of diminishing returns. In his *Evolution of Modern*

cording to this theory, surpluses may be found anywhere, and are not confined to rent or profits only, and a conclusion drawn from it is that taxes upon commodities are not necessarily borne by consumers, but may merely absorb some one of the numerous "forced gains." It may be objected that many of these so-called surpluses may be better explained as rewards for superior skill in bargaining — as differential wages, for example; and in other cases, they appear to resemble Marshall's consumers' surpluses in their origin.

J. S. Nicholson, in his well-known *Principles of Political Economy*, presents a survey of economic principles based on Mill, adapting the Classical doctrines in the light of historical criticism on the one hand and of advanced mathematical analysis on the other. The treatment of relative prices, and of profits and wages, has been thought especially noteworthy.

The various brands of Socialism all have appeared, though Marxian Socialism has gained relatively little ground.<sup>1</sup> Christian Socialism, so called,<sup>2</sup> — not Catholic — has had such well-known leaders as Kingsley, Ludlow, and Hughes. England is the peculiar home of that opportunist order of Socialism called Fabian, of which Webb is the best-known representative.

It is perhaps true that in England the question of land nationalization has been discussed with relatively great frequency. The attention given the question by Mill has been indicated, and such men as Dove and Wallace have become known in this subject.<sup>3</sup>

*Capitalism*, 1901, and *The Industrial System*, 1909, he shows leanings toward a sort of State Socialism in suggesting government monopoly as the alternative to the absorption of all "forced gains" by taxation.

<sup>1</sup> On Socialism in England, see Flint, *Socialism*, Chap. II, and supplementary note; Webb (S.), *Socialism in Great Britain*; Villiers, *The Socialist Movement in England*.

<sup>2</sup> It will be remembered that Christian Socialists are commonly not Socialists in the technical economic sense of the term. Their ideas are not generally very definite and as a rule they stand merely for reform of various particular social evils. However, there is a real Socialism which bases its doctrines on the teachings of Christ.

<sup>3</sup> Patrick E. Dove (1815-1873) believed in a natural right to liberty and property which should be confirmed by legislation. He was not a Socialist, nor was he rev-

A recent development in English thought has been a renewal of interest in the tariff question.<sup>1</sup> With increasingly effective competition from Germany and the United States, the question has long been raised as to whether England cannot protect herself by establishing preferential relations with her numerous colonies and by offsetting foreign bounties and aids by tariffs on imports of manufactures. Ashley, Cunningham, and Welsford have favored "tariff reform," which means in England a protective tariff; Smart, Pigou, Dawson, Money, and Farrer have opposed it.

**France<sup>2</sup> (and Belgium).** — The first real economists, the Physiocrats, were Frenchmen, and to France belongs an honorable part in the founding of the science of political economy. But with the close of the eighteenth century, it will be remembered, England took the lead, and after Say, France neither produced any important works nor possessed a school of economists until about 1845, though French idealistic or utopian Socialism flourished.

At length, near the middle of the nineteenth century, there arose a revival of classicism, marked by the advent of such men as Dunoyer and Bastiat. English influence was decidedly dominant, and after 1860, when tariff barriers between England and France were largely removed, the "Manchester School" carried the day with a high hand. The commercial agreement just alluded to was largely influenced by

olutionary. But he favored taking taxation from labor, and placing it chiefly upon land. His views may be traced in his *Theory of Human Progression* (1850), but are elaborated in the *Elements of Political Science* (1854). A. Russell Wallace's chief work in this connection is *Land Nationalization, its Necessity and its Aims* (1882). He advocates common ownership with cultivation by leaseholders, the land being let to the highest bidder.

<sup>1</sup> Beginning about the early nineties, and reaching a climax with Joseph Chamberlain's activities from 1903 on.

<sup>2</sup> See Béchaux, *L'École Économique Française* (1902); Feilbogen, "L'Évolution des Idées Économiques et Sociales en France depuis 1870," in *Rev. d'Hist. des Doct. Écon.*, 1910, pp. 1-41; Gide's articles on various tendencies in French economics, in *Econ. Jr.*, June, 1907, and *Pol. Sci. Quar.*, December, 1890, and *Jahrbücher* (Schmoller), 1895; De Foville, "The Economic Movement in France," *Quar. Jr. of Econ.*, 1890, pp. 222-232; Bonar, "Studies in the Origin of French Economics," *Quar. Jr. of Econ.*, 1890, p. 100; Palgrave's *Dictionary*.

Cobden and the French economist and statesman, Chevalier. Individualistic philosophy and deductive methods reigned supreme; but, as observed above, the French were more optimistic than the English. This period, extending down through 1878, has been called one of traditionalism. Bastiat was its dominating spirit.

And, as Professor Gide has pointed out, it is well to note here that the French school of Liberalists has never been quite identical with the English in its thought. From Mercier de la Rivière to Leroy-Beaulieu, their optimism has been underlain by a belief in the beneficence of natural law. Their optimism has concerned the future, that is, the possible future. Evils they recognize; but these arise, they believe, from failing to observe the natural law in not leaving industry free and untrammelled.

Some reasons for this optimistic tendency have been suggested in connection with Bastiat's thought.<sup>1</sup> If to these reasons is added the fact that the prevalence of small farms and industrial enterprises in France has made individualism more natural and reasonable than elsewhere, it will be easier to understand the tenacious hold of an old school in the land of the Physiocrats.

To be sure, there have been exceptions among French-writing economists; Rossi (1787-1848), Sismondi, Cherbuliez (1797-1869), and Le Play were such. But Rossi was an Italian; Sismondi and Cherbuliez were Swiss; and, if Le Play was inductive and something of a romanticist reactionary, still he does not fall in the enemy's camp. The work of Cournot and Walras has been rejected by the dominant school, the latter having been virtually an exile in Switzerland.

Such was the situation in 1878 when the new movement became effective in France, as, in various ways, it had been working in other countries. German influence had been virtually unfelt till about this time. Then, as a result of the Franco-Prussian war (1870), more curiosity concerning

<sup>1</sup> See above, p. 279.



German thought sprang up; Laveleye made the so-called "Socialism of the Chair" known, and M. Block wrote of German books and thought; while through the activity of Paul Güde the historical spirit of Savigny penetrated the teaching of Roman law.

Laveleye (1822-1892) was a Belgian writer and professor at Liège. His works deal with freedom of commerce, money and crises, rural economy and land systems, property and Socialism.<sup>1</sup> His views were considerably like those of the *Katheder Socialisten*, as he took the historical standpoint and denied the existence of natural laws. He will be remembered for his arguments favoring the belief in an original community of property; and, as to economics proper, for his analysis of the forces determining the productivity of labor.

The war, too, brought in its train a host of practical problems, and ultimately a veritable regeneration in politics and economics.

All the preceding activity would probably have been ineffectual, however, if the monopoly of economic instruction which was held by a few special schools in Paris and the Collège de France had not been broken.<sup>2</sup> In 1878 courses were instituted in the faculties of law of various French universities. This meant new teachers, of whom it will be noted that as teachers of law they were sympathetic toward state interference, and that they were not trained in the doctrines of the French Liberalists. These new men, then, were inclined to follow the Historical School and to advocate government intervention for social reform. Accordingly, in 1879 came Cauwès' *Cours d'Économie Politique*. Gide published his *Principes d'Économie Politique* in 1883. Translations of Schmoller, Wagner, and Brentano appeared; and

<sup>1</sup> Chief writings: —

*De la propriété et de ses formes primitives*, 1874.

*Le Socialisme contemporain*, 1881.

*Éléments d'Économie politique*, 1882.

<sup>2</sup> French economic writings have mostly come from men other than professional economists.

in 1887 the *Revue d'Économie Politique* was established as the organ of the new tendencies. Cauwès' notable book advocated protectionism, and followed German ideas to the extent of placing the nation and the actual to the fore, abandoning the procedure of reasoning from absolute universal laws. In this, List was his master.

However, the Historical School proper and its peculiar methods seem to have found little favor among the French economists. It is rather to an increased study of systems other than individualism that the new movement has led. And here the difference between the French government and that of Germany has made a difference in the thought of the two nations. The French do not look upon the state with the eyes of Germans, but regard it more as an American would. Consequently they have sought some other means of obtaining the goal of the German State Socialists than that of state activity. Indeed, the great mass of the French population is middle-class, not proletarian, in its interests, and, except for the laborers of the manufacturing centers, does not respond to movements for extending the power of the state so as to restrict individualism greatly, nor to anti-capitalistic Socialism.

*Solidarité* is a term much used in France and championed by such men as C. Gide and L. Bourgeois. The distinguishing features of their plan seem to be the abolition or fundamental modification of the wages system and the emphasis given to coöperative action and various forms of voluntary association. It regards as the foundation of solidarity "those voluntary contractual associations and institutions that are created deliberately with a view to creating this feeling."<sup>1</sup>

*Solidarité* rejects the principle of competition, and so stands opposed to Liberalism. On the other hand, as accepted by most of its adherents, it differs from State Socialism in opposing the extreme length to which State Socialism goes in favoring government action, and from

<sup>1</sup> Gide, *Principles of Pol. Econ.*, 8th ed., Amer. trans., p. 38.

revolutionary Socialism in general in that it disbelieves in the efficacy of revolution or expropriation. Although considerable divergence exists among the ideas of its followers on the part that the state should play, it virtually accepts, however, the program of the so-called *Kathedersocialisten* as laid down by Schmoller.<sup>1</sup>

As to their economics, the majority of the professors in the faculties of law, as just indicated, differ from the liberalists. They are what M. Gide terms "interventionists." They devote their energies largely to the study of current problems, notably the labor problem, and advocate government protection. The International Association for the Legal Protection of Labour (Paris, 1900) draws from their number, M. Cauwès being president of the French section. Gide mentions, as adherents Jay, Pic, Aftalon, and Bourguin, the last named being the author of *Les Systèmes Socialistes et l'Évolution Économique* (1904). In this book the author, after critically examining the various plans for solving the social problem, decides adversely to Socialism. The only recent product of the professorial group in pure theory, Landry's *L'Intérêt du Capital* (1904), appears to have come through the faculty of science.<sup>2</sup>

France also has her Christian Socialism — or perhaps more properly Social Christianity — with both the Catholic and Protestant branches. Indeed, this tendency seems to command more respect in France and Belgium than elsewhere.

Meanwhile the French Classical economics is far from vanquished, for the Liberalists (economic conservatives) are still found in certain universities.<sup>3</sup> Moreover, it reigns in the academies, and speaks through such journals as *Le*

<sup>1</sup> For a statement and discussion of the program and ideas see Gide, *Essai d'une Philosophie de la Solidarité* (1902) and *Applications Sociales de la Solidarité* (1907). See also Bourgeois, *La Solidarité* (1894), Bouglé, *Le Solidarisme* (1907); Gide-Rist, *Histoire des Doctrines Économiques*.

<sup>2</sup> Professor Landry's *Manuel d'Économie* (1908) is one of the best economic manuals France has produced.

<sup>3</sup> E.g., Villey at Caen, Beauregard at Paris.

*Temps, Les Débats; Revue des deux Mondes*, and the venerable *Journal des Économistes*. So, too, with the *Économiste Français* and the *Monde Économique*. Among its adherents are numbered Courcelle-Seneuil (1813–1892), Léon Say, Block, Molinari, Passy, Levasseur, Baudrillart, Juglar, Colson, Schätz, Stourm, Leroy-Beaulieu, Yves Guyot, De Foville, Neymarck, Cheysson (*d.* 1910), and Beauregard.

This list may be divided into two groups. One, the older individualists, may be represented by Frederic Passy and Gustave de Molinari. Passy (*b.* 1822) is an idealist, and strongly emphasizes property rights. He also considers ethical ideas, and is widely known for his activity in promoting international peace. Molinari (1819–1912) is an utopist, and individualism is the keynote of his thought. He appears to simplify the complexities of society unduly when he virtually reduces all activities to the sway of three laws: self-interest, competition, and value. He has long been the editor of the *Journal des Économistes*.<sup>1</sup> Émile Levasseur (*d.* 1911) may also be classed here, though his realism and the wonderful grasp of facts shown in his numerous writings somewhat differentiate him. He was influenced by Roscher, and perhaps his best work has been done in the fields of statistics and geography. He is an optimist, though his latest work may show some signs of wavering. The younger group of individualists would include Leroy-Beaulieu, Yves Gyot, De Foville, and Neymarck, as its chief representatives. These men are statesmen and statisticians. Though not without differences of opinion among themselves, all these men are united in their hostility to Socialism, protectionism, and state intervention. The chief development in their point of view has been a more practical tendency. With the exception of Molinari, the present-day members of the Institute do not defend Liberalism on *a priori* grounds, and their work is largely concrete and descriptive.

<sup>1</sup> Some of Molinari's works are: *Cours usuel d'Économie politique*, 1863; *Notions fondamentales d'Écon. pol.*, 1891; *Esquisse de l'organisation politique et économique de la société future*, 1899.

Among the most important recent products of the thought of this group is M. Colson's *Cours d'Économie Politique*, the publication of which began in 1901. It is one of the few French works to expound the doctrines of the mathematical school. M. Colson is an engineer, and is well known as the author of a valuable treatise on transportation (*Transports et Tarifs*).

It remains to characterize briefly two French writers who more than any others of the second half of the century — Cournot, Bastiat, and Walras excepted — stand forth as of original genius. They are Le Play and the Belgian, Quetelet. Neither advanced pure economics, but both made contributions to the methods and data of the science, for which they are justly famed.

Le Play<sup>1</sup> (1806–1882), in fact, was the founder of what may be called a school of thought which is active to this day. He was a Catholic, and a member of the conservative school. His work lay largely in the field of sociology and social reform, the investigation of wage-earners' family budgets constituting his chief scientific activity. These investigations he made in person during the course of extended travel. Some typical conclusions were that the importance of the family as a social unit should be increased; there should be greater freedom of bequest; and the criterion of the duty of the employer should be extended beyond the mere cash nexus. His school seeks social harmony through increased moral responsibility on the part of the father in the family, the employer in the factory, and the church in the state.

<sup>1</sup> Chief writings: —

*Les ouvriers Européens. Études sur les travaux, la vie domestique et la condition morale des populations ouvrières de l'Europe, précédés d'un exposé de la méthode d'observation*, 1855.

*Les ouvriers des deux Mondes*, 1857–1863.

*La réforme sociale en France, déduite de l'observation comparée des peuples Européens*, 1864.

*L'organisation du travail*, 1870: Eng. trans., Philadelphia, 1872.

*Le prix social selon la pratique des autorités soumises au décologue*, 1871.

*L'organisation de la famille selon le vrai modèle signalé par l'histoire de toutes les races et de tous les temps*, 1871.

*La constitution essentielle de l'humanité*, 1881.

In 1856 Le Play founded an international society for study along the lines pursued by himself; and in France the *Union de la Paix Sociale* (Union of Social Peace), composed of local clubs for applying his methods, originated in 1872. Both have been active. It is upon these lines that Engel worked in formulating the law found in most American text-books of economics.

Quetelet<sup>1</sup> (1796-1874) was a Belgian statistician, notable as the founder of social statistics. Primarily a mathematician and social scientist, he sought the laws of group phenomena. He did not deny the freedom of the will, though he gave scant recognition to the individual; but he believed that laws of natural necessity underlie many social phenomena. His mortality tables, in which he separates urban and rural population, are notable achievements.

When one essays to summarize the general situation in France, the following conclusions appear just. Among the most notable facts is the paucity of pure economic thought. Most of the energy of French economists is bent upon solving social problems.

A concomitant fact is the lack of a hearing for the Austrian school and the mathematical-subjective economics.

Nor, on the other hand, has the historical method, although espoused by Laveleye, found much favor.

The dominant group of economists, strong in their castle-like control of leading societies and journals, still stand for a belief in natural laws, which leads them to optimistic conclusions. These "Liberalists" are the French representatives of individualism and the Classical School.

Opposed to them, stands a group consisting chiefly of

<sup>1</sup> Chief writings:—

*Instructions sur la probabilité*, 1828; English trans., 1839.

*Sur la possibilité de mesurer l'influence des causes qui modifient les éléments sociaux*, 1832; Eng. trans., *Tracts on Mental and Moral Statistics*, Series IV, Vol. 5, London.

*Sur l'homme, physique sociale*, 1835.

*Lettres à S. A. R. le duc, régnant de Saxe-Coburg et Gotha sur la théorie des probabilités*, 1846; Eng. trans., London, 1849.

*Du Système Sociale et des lois qui le régissent*, 1848.

teachers in the law faculties who represent ideas akin to the progressive economists of Germany and the United States, — the “interventionists.”

Between the two a small but active group of “solidarists” exists, seeking a remedy for social ills in perfected voluntary association.

Then there are all varieties of Socialism, though, as elsewhere, it is not represented by any important economists.

Finally, the peculiar field developed by Le Play has been so attractive and held out such promise that it has given rise to a fairly distinct group.

French economics cannot be passed over with the statement that it is a mere modification of the English school. It is too diversified, too concrete or realistic, too optimistic for that. But there is still some justice in the criticism that some of the Liberalists, in a conservative and apologetic spirit, have accepted optimism — individualism, *laissez faire* — *a priori* rather than *a posteriori*. Moreover, it is true that while in French works one may find excellent studies in the history of economic thought, in the labor problem, transportation, and finance, relatively little has of late years been contributed to general or pure economics.

## CHAPTER XXXIII

### ECONOMIC THOUGHT IN THE UNITED STATES DURING THE SECOND HALF OF THE NINETEENTH CENTURY

AMERICAN economic thought has already been touched upon, and Franklin, Hamilton, Raymond, and Carey have been more or less fully discussed. It did not seem advisable, however, to interrupt the discussion of the general stream of thought by treating local forces and characteristics. The object of the following chapter is to set forth some of the more peculiar features of American economic theory and its development, bringing out, as it were, the local color.

I. **The Background.**—Almost from the beginning the peculiar environmental conditions met with in America have given a characteristic set of tendencies to American economics.<sup>1</sup> In the first place, the point of view is generally optimistic. The country is young, and its resources are boundless. It is far removed from the pessimism of a "stationary state," and has been, indeed, in the "advancing state" of the old Classical economists. In accordance with this general tendency, from early times to Professor Patten, there has been a correlated tendency to deny the validity of the Classical law of diminishing returns, and yet another to attack the Malthusian doctrine of population.<sup>2</sup> Both doctrines, as commonly understood, seemed to run counter to the facts in this new land.

<sup>1</sup> Cf. Sherwood, *Tendencies in American Economic Thought*, Johns Hopkins University Studies, 1897; and Leslie, *Essays in Political and Moral Philosophy*, p. 126, 1880. See also Laughlin, *Jr. Pol. Econ.*, Vol. I.

<sup>2</sup> Carey, Thompson, Peshine Smith, Bowen, A. Walker, Perry. More recently this last tendency has rather shaded into a mere neglect or a minimization of the importance of the doctrine.



Moreover, the progressive state of the country, with its attendant speculation and fluctuation in prices, may be taken partly to explain the fact that an assumed general equality of wages and profits is rarely made an important premise in the reasoning of American economists. The existence of wide differences in local rates of wages and profits within their nation's vast area would work toward the same result.<sup>1</sup>

Again the fact that farms have been "carved out" of the wilderness before our very eyes has doubtless suggested the question, Is land not capital? Is it not "produced"? Furthermore, the abundance of land has, in connection with a democratic people, begotten a system of land ownership which has made the distinction between land and capital less obvious than it was in the home of Classical economists. Its ownership has been more mobile; its tenure and value more closely related by competition and the market. Accordingly, Carey held views at variance with those of the Classical economists on this point,<sup>2</sup> and recently a number of American economists have shown a strong leaning in a similar direction.

Part and parcel of the same tendency is the further fact that Americans have been forward in applying the differential idea to labor and capital as well as land.

The scarcity of labor and capital which has existed well down to the present time has also found its expression in certain theoretical peculiarities, in addition to furthering the one just noted. For one thing, the necessity for and importance of the management factor have been accentuated. Invention, too, has been stimulated, and its importance emphasized. This has fostered a point of view in which change and progress are regarded as normal.

But most interesting of all is the suggestion that the widespread acceptance of the marginal-productivity theory of distribution may be an offspring of a national psychology engendered by these conditions. Where labor, for example, is scarce and relatively independent, the wages-fund doc-

<sup>1</sup> See Leslie, *Essays in Political and Moral Philosophy*, pp. 137 f.

<sup>2</sup> Folwell, A. E. A. Pubs., 3d annual meeting, Dec. 1888, p. 65.

trine would hardly be suggested, while it would be easy to conceive of a relationship between productivity and income. Some of the assumptions in Professor Clark's theorizing have been actualities in America. There has been a great deal of free, no-rent land, upon which the settler put his labor. If he could get it, hired labor was paid all that it was "worth," and the subsistence wage has been far less common in America than in Europe. Labor was the factor which had to be economized, rather than land, and *its* productivity was scrutinized. The result was a productivity theory of wages; and the application of the differential idea, or perhaps an idea unconsciously caught from one of the numerous early writers who suggested the marginal concept for determining value, completed the scheme. But oftentimes in the earlier days capital was the scarcest of all, when like results might be expected in the theory of interest.

Nor is it unlikely that the readiness with which certain American theorists take to the idea of capital as a mobile fund, criticizing the idea of capital as the aggregate of capital goods, has been furthered by the prevalence of corporations and speculation and the relative mobility of investment, taken together with the preceding conditions.

Finally, America's relative isolation has made her a staunch protectionist country. Located remote from the old centers of arts and industry, and at a time when the products of manufacture were of great importance, the "American system," according to which ocean freight charges were to be saved and home markets developed, was a natural consequence. America, directly, and to some extent indirectly through List, has been the center of the modern protectionist idea.

Of course these "tendencies" do not find equal expression in all American economists, and there have always been some who have upheld the Classical doctrines; but the most characteristic ones will always be found to illustrate the reality of them sufficiently well.

This background will afford some preparation for a brief

survey of a few of the recent economic thinkers and their thought.

II. **History.**<sup>1</sup>— Three great periods in the history of economic thought in the United States are clearly marked. In the early days of the republic a protectionist optimistic tendency was dominant, and the influence of a new environment appeared in a frequent opposition to the teachings of Ricardo and Malthus. Henry Carey was the most prominent and original thinker of the time. In politics the so-called "American System" was a practical expression of the dominant idea.

All the time, however, English economics formed the basis for such small teaching as there was. Men had little interest in Political Economy.

But in the second period which embraced the generation following Civil War times, there came a rush of great economic problems, — notably the tariff and monetary matters, — a considerable growth of interest in economics, and with these, a dominance of the English Classical theories. Francis Wayland's *Elements of Political Economy* (1837), dating from the earlier period, was much used; and the writings of Amasa Walker, John Bascom, A. L. Perry<sup>2</sup> were products of this second period.

Moreover, an American translation of J. B. Say's *Traité d'Économique Politique* (1803) appeared in 1821, and went through many editions.<sup>3</sup> This work was widely used as a text before the Civil War, and even down to the eighties. It exerted a deep influence upon American economic thought.

This period may be said to reach a climax with General Francis A. Walker, son of Amasa, though his work extended well into the one which followed and he marks the beginning

<sup>1</sup> For a list of the chief works of economists mentioned in the following pages see pp. 630-634.

<sup>2</sup> Perry's *Elements* (1866), while advocating free trade and holding to a law of diminishing returns, is more like the writings of Carey and Bastiat as to rent and the place of land as a factor.

<sup>3</sup> English translation by Prinsep, London, 1821, from the fourth edition of Say's work. The sixth American edition (Philadelphia, 1836) was corrected according to the fifth edition of the original, by C. C. Biddle.

of a new period as well as the close of the old. Walker's brilliant attack upon the wages-fund doctrine has already been noted, as well as his influence upon English thought. He is perhaps equally well known for his separation of the entrepreneur function, thus emphasizing it and dividing the "profits" of Smith and Ricardo into interest and entrepreneur's profits. In this, he was no doubt guided by the great development of business organization and management in America — a fact which must have been patent to him as director of the Federal censuses of 1870 and 1880. As a part of his treatment of the entrepreneur came Walker's famous theory of profits. He reasoned that profits as distinguished from interest and wages is the share of entrepreneurial ability, — an ability which is possessed by entrepreneurs in varying degrees and which in its highest forms is especially scarce. Profits, like rent, is a differential return for the superior natural advantages. There is a class of no-profit entrepreneurs, he held, just as there is no-rent land, and in so far as this is true, profits does not enter into the determination of price.<sup>1</sup> The price will just cover the cost of the product of the marginal or no-profits entrepreneur, including his wages. Walker argued that profits would increase with progress in civilization.

With the exception of General Walker, the American economists of these earlier days were astonishingly narrow and absolute in their doctrines.<sup>2</sup> It was believed that almost any one could teach political economy, no special training being necessary. Amasa Walker, even, could write: "Although desirable that the instructor should be familiar with the subject himself, it is by no means indispensable." A well-arranged text-book, together with some effort on the part of the teacher and attention on the part of the pupil, would insure results.

As a result, though there was a growing interest in eco-

<sup>1</sup> *Political Economy* (1883), pp. 244-259. The chief criticism concerns the assumption of a no-profits margin.

<sup>2</sup> Francis A. Walker in 1891 wrote that American economics had been more arbitrary than the English even, *laissez faire* and assumptions based on the "economic man" being pushed to the extreme.

conomic problems, the study of economics was generally regarded as dull and fruitless, if not with positive aversion. Activity was chiefly confined to the more practical and particular topics, and most of the best work appeared in periodicals. Cliffe Leslie sums up the situation as follows:—

“Speaking generally, however, the men best qualified to stand in the front rank of American Economists are not the authors of systems or general theories, or text-books of principles, but writers on special subjects—David Wells, William M. Grosvenor, Albert S. Bolles, Francis A. Walker, Edward Atkinson, William G. Sumner, C. F. Dunbar, and Simon Newcomb. Only since the Civil War has America begun seriously to apply its mind to economic questions, and the number of powerful intellects it has brought to bear on them is a remarkable phenomenon in the history of philosophy. Many of the best economic essays the last decade has produced will be found in the pages of American periodicals. . . . In the translation of Roscher and Blanqui, work has been done by America which England ought not to have left it to do. Two considerable contributions to economic history were made last year in the ‘Industrial History of the United States,’ and the ‘Financial History of the United States, 1774–1789,’ by Mr. Bolles. In the perfection of its economic statistics America leaves England behind.”<sup>1</sup>

It was in this second period that one finds the first important academic recognition of economics. Professor Perry in 1865 held the title of Professor of Political Economy at Williams College; and in 1871 Professor Dunbar took a chair of Political Economy at Harvard, where Professor Bowen had been serving as Professor of Natural Religion, Moral Philosophy, and Civil Polity. Sumner and Walker soon took up work at Yale. Toward the end of the second period, about 1875, pressing monetary and financial problems, largely occasioned by the Civil War, aroused considerable interest in economics.

About the year 1885, however, the beginning of a new era in American economic thought appeared. Among the more general grounds for the change were great industrial devel-

<sup>1</sup> “Political Economy in the United States,” *Fortnightly Review*, 1880; *Essays*, p. 154.

opments like the rise of railway and corporation problems accompanied by strikes and labor agitation; and the very narrowness and dogmatism of the current economics, which invited reaction. More particularly, there was the ferment of Henry George's propaganda, and the stimulus of Walker's bold generalizations. George's *Progress and Poverty*, with its plea for a single tax on land, appeared in 1879, and aroused an interest and provoked such debate that we of a later generation still hear its echoes, while hardly realizing its intensity. Finally, there came two thought forces from abroad: the widening ripples from the German Historical School, reënforced by Ingram's address on *The Present Position and Prospects of Political Economy* (1878), reached America in the early eighties; shortly thereafter the doctrines of the Austrian School became effective there. At about the same time, as will appear in a moment, Professor Clark was developing similar ideas.

It was in the fall of 1885 that the American Economic Association, so potent in the development of economic thought, was founded, one avowed object of its founders being to replace the abstract speculative economics of the day with a body of thought based upon historical and statistical investigation. The time was ripe for such an association. Indeed, it came hard upon the heels of an unsuccessful project, the "Society for the Study of National Economy."<sup>1</sup> This projected society, whose principles were formulated by E. J. James and S. N. Patten, had proposed to stand for an increase in the functions of the state, emphasizing labor legislation, railway regulation, and the conservation of natural resources; and, as illustrating the new spirit, the following statement of one of its "ends" is of interest. It was proposed: "To combat the widespread view that our economic problems will solve themselves and that our laws and institutions which at present favor individual instead of collective action, can promote the best utilization of our

<sup>1</sup> For a more complete account of the origin and work of the American Economic Association see Ely, *Amer. Econ. Assoc. Quar.*, XI, pp. 46 ff.

national resources and secure to each individual the highest development of all his faculties." The program proposed was too detailed to secure the adherence of enough economists for the organization of the society.

Perhaps those most active in originating the American Economic Association were Professors Ely, H. B. Adams,<sup>1</sup> James, and Seligman,<sup>2</sup> although some of the older economists coöperated and Francis A. Walker was made the first president. The objects of the association were, on the whole, similar to those of the preceding society, being (1) the encouragement of economic research, (2) the publication of economic monographs, (3) the encouragement of perfect freedom in economic discussion, and (4) the establishment of a bureau of information to aid members in their studies. Its statement of principles differed in the direction of less radicalism on the score of governmental interference and of an emphasis of historical and statistical methods. These principles were the result of a conservative modification of a draft prepared by Professor R. T. Ely. They ran as follows:—

"1. We regard the State as an agency whose positive assistance is one of the indispensable conditions of human progress.

"2. We believe that political economy as a science is still in an early stage of its development. While we appreciate the work of former economists, we look not so much to speculation as to the historical and statistical study of actual conditions of economic life for the satisfactory accomplishment of that development.

"3. We hold that the conflict of labor and capital has brought into prominence a vast number of social problems, whose solution requires the united efforts, each in its own sphere, of the church, of the state, and of science.

"4. In the study of the industrial and commercial policy of gov-

<sup>1</sup> H. B. Adams was an historian, but his influence and encouragement was a valuable aid to the formation of the Association. The American Historical Association had been formed in 1884.

<sup>2</sup> At the first meeting called to discuss the formation the following among others were present: C. K. Adams, H. B. Adams, H. C. Adams, E. B. Andrews, E. W. Bemis, C. Bowen, J. B. Clark, Miss Katherine Coman, V. B. Denslow, D. R. Dewey, S. W. Dike, R. T. Ely, Washington Gladden, E. J. James, Alexander Johnston, F. B. Sanborn, Eugene Schyler, E. R. A. Seligman, Herbert Tuttle.

ernments we take no partisan attitude. We believe in a progressive development of economic conditions, which must be met by a corresponding development of legislative policy."

It is to be observed that this statement of principles was not regarded as a creed. It was apparently never signed. Yet even so, it was the object of criticism, and was in 1888 unanimously abolished because all felt that it had done its work. Its function was to serve as a rallying point for those economists who were the progressives of the time, thus insuring a certain likemindedness in membership and leadership, desirable under such circumstances.

Indeed, ample evidence exists that the above principles were hailed with no small enthusiasm. As already noted, the period was one of transition in social thought and in economic facts. In the face of such great questions as the growing labor problem, railway discrimination, and money difficulties, all accentuated by the crises of 1873 and 1884, the old policy of *laissez faire* was proving inadequate, and the wave of nationalism which came with the Civil War no doubt made the decline of that policy easier.<sup>1</sup> At the same time the narrow abstractions of the economics then taught grew more and more irksome.

This is the point at which reference should be made to German influence. The men who founded the Association had studied in Germany and had been deeply affected by the breadth and catholicity of economic studies there. In addition to those mentioned in connection with the origin of the Association, John B. Clark and Henry C. Adams were among the early active members who had studied in Germany. All these men felt the lack of freedom in American economic thought. More concretely, the idea of relativity was grasped, and at the same time the economic significance of ethical and political forces was realized. Thus, while the American Economic Association was of domestic origin

<sup>1</sup> For an illustration of the effects of the Civil War and of the growth of government intervention in one field of economic activity, see Haney, *Congressional History of Railways*, Vol. II, pp. 157, 161 f., 163, and Chap. XXI. (Madison, Wisconsin, 1910.)



and stood for American ideas, it is to be gratefully acknowledged that certain good elements in the German thought of that time were instrumental in hastening and guiding its birth. No doubt, too, the *Verein für Sozial Politik*<sup>1</sup> served to some extent as a model.

The Association at once became the center of new thought forces, gathering them together and giving them strength through the mutual support and interchange of ideas which it encouraged. It also served to stimulate further development. Its early monographs set forth ideas which later developed into well-rounded theories expounded in books, — e.g. Clark's *Capital and its Earning* in Volume III. That a considerable part of these monographs illustrate the historical idea, is natural. Nor is the practical influence of the Association to be overlooked. It has been a real force, through its membership and the reports of its committees, for improving the federal census, and the regulation of monetary matters, the "trusts," and the railways.

As further evidence of contemporaneous development in the world of economic thought, it is only necessary to recall that in 1886 the *Political Science Quarterly* (Columbia) and the *Quarterly Journal of Economics* (Harvard) were established, followed in 1890 by the *Annals of the American Academy of Political and Social Science* (Pennsylvania) and the *Journal of Political Economy* (Chicago), and by the *Yale Review* (Yale) in 1892. Clark's *Philosophy of Wealth* appeared in 1885, Laughlin's *Elements of Political Economy* in 1887, and Ely's *Introduction to Political Economy* in 1889.

At about this time General Walker spoke of an intense interest in industrial conditions and in economics. And he was inclined to complain of a spirit of radicalism, a contempt for authority and dissatisfaction with the existing order.<sup>2</sup> From then on down to the present day, an eager, restless

<sup>1</sup> See above, p. 494.

<sup>2</sup> *Amer. Econ. Assoc. Pubs.*, 1891. For a statement and criticism of the situation which deserves to become a classic, see Dunbar's article on "The Reaction in Political Economy," *Quar. Jr. Econ.*, I, 1-27 (1886).

inquiry, an extension of general and technical instruction along economic lines, have prevailed in the United States, and are the subject of frequent comment by foreign economists.

### III. Conditions at the End of the Nineteenth Century.<sup>1</sup>

— Perhaps to some extent on account of the comprehensiveness of the American Economic Association, it seems that no such division into important schools exists, as, for instance, is the case in Germany. Or the fact may be due in part to the later development of activity in economic thought. Coming after the reaction against the extremes of the Historical School had set in, there was less occasion for the "schools" involved. Moreover, the absence of so widespread and acute a condition of class antagonism and the evils accompanying it may explain in part the slight importance of Socialism to date. It was characteristic of American economics at the end of the nineteenth century that relatively little difference of opinion was found as to the tariff and government control in general, neither being entirely condemned.

On the whole, there were but two great groups, with so many variations within both, and so shading into one another, that they cannot be called schools. One held to a large part of the teaching of Mill; the other followed the Austrian school and Professor Clark. Within the latter, a smaller third group had Professor S. N. Patten as its center. This is sometimes called the Pennsylvania group. Accordingly, one finds, on the surface at least, wide difference in the importance attributed to cost in value determination, in the theory of interest, and in the treatment of land and the return from land. To mention but a few names: Professors Clark, Fetter, Fisher, and Patten emphasize the subjective point of view and the utility side of marginal utility, and criticize the Classical rent doctrine; Professors Bullock, Carver, Ely, Hollander, Laughlin, and

<sup>1</sup> Most of what is here written will apply to the decade 1900-1910.

Taussig lay more emphasis upon the objective and upon costs, and hold to an enlightened Ricardian doctrine of rent.

Professor Fisher of Yale is the leading exponent of the mathematical method. As statisticians Mayo-Smith and Wright, — both now deceased, — Dewey, Willcox, Bailey, and Falkner are the best-known Americans.

There can be no doubt of a strong tendency among American economists to emphasize psychological analysis. After 1885 the thought of Jevons and the Austrian school took firm hold, and American economics has come to its recently acquired place of prominence largely through independent development of parts of this field. Accordingly it is probable that three of the five or six leading theorists are Clark, Patten, and Fisher, whose thought may be briefly examined as typical of the most striking characteristic of American economics.

Many hold that Professor John Bates Clark is the greatest constructive general theorist that America has yet produced. His claim to some originality in developing the significance of marginal utility is strong, and his name will ever be associated with the marginal-productivity analysis in static distribution. Many of the most promising of the younger economists have been much influenced by him. His calm, clear analysis has been very suggestive, and has done much to clarify distribution problems.

It is interesting to speculate upon some of the influences that must have helped stimulate and mold the thought of one who is, perhaps, America's leading economic theorist. Professor Clark's thought shows some similarities to that of Bastiat, and it is not unlikely that in his early days he was somewhat influenced by the latter. He himself refers to the influence of a suggestion received from Henry George.<sup>1</sup> As a pupil of Knies, too, he no doubt drew upon that acute thinker. For the rest, he accepted the idea current among

<sup>1</sup> *Distribution of Wealth*, Preface, p. viii. George's idea is that wages are fixed by the product which a man can create by tilling no-rent land. Clark, of course, is far from accepting George's single tax ideas.

economists of the historico-sociological type, that society is an organism. Add to this background Professor Clark's great power of sustained abstract speculation, and some of the chief factors in his work are apparent.

In his *Philosophy of Wealth* (1885) the two main ideas are that the prevalent theory of value misconceived the part played by utility, and that society is an organism to be treated as a unit in discussing processes of wealth distribution. Clark distinguishes absolute from "effective utility," defining the latter as "power to modify our subjective condition, under actual circumstances, and . . . mentally measured by supposing something which we possess to be annihilated, or something which we lack to be attained."<sup>1</sup> Market value is measured by this utility, estimated by society considered as one great isolated being.<sup>2</sup>

Clark also emphasizes the limits set to competition in modern society, assigning a large part to non-competitive economics. An ethical purpose is very prominent: a just distribution of wealth is contrasted with the existing conditions; an appeal is made for a more rational means of effecting distribution; and the higher ethical forms of wealth are emphasized.

It is by his *Distribution of Wealth*, published in 1899, that Clark is best known. Put in a nutshell, it is the idea of the book that in a "static" condition the factors of production receive shares corresponding to the productivity of their final or marginal increments; the process being "controlled by a natural law."

The social point of view being taken, and society being regarded as an organism, it follows that distribution and exchange, with value, are included in the round of production. Distribution has three stages; the division of social income, first among various groups of industries, then among sub-

<sup>1</sup> P. 78. Compare *Distribution of Wealth*, p. 376. This statement is subject to the same criticism as was Menger's. See above, pp. 546 f., 550 f.

<sup>2</sup> P. 82. Professor Seligman in his *Principles of Economics* (1905) follows this conception of value.

groups, and finally among the factors of production within the sub-group. The first two processes are controlled by the market price of the produce; the last — or functional distribution, as we would say — is governed by productivity, labor tending to get what it separately produces, and capital likewise.<sup>1</sup>

In order to reduce all units to homogeneity, Clark would fund all the factors of production. Land and capital are reduced to an abstract mobile capital fund ("social capital"), and labor to productivity units ("social labor"). Then the specific product of a unit of any factor may be segregated, he maintains, by turning to the margin. In the case of labor this may be found widespread in a zone of indifference as to employing more men. In all industries there is an intensive margin. It is a chief service of Clark's to have developed and defined (not originated) the idea of a fund of productive wealth abstract and not lost in the capital goods through which it finds expression at any given time. This is similar to the business usage. It is a conception which helps to an understanding of the mobility of capital under competitive conditions.

Though, for the most part, a "natural" tendency to equalize returns in different industries is posited as the force assuring the productivity correlation, it is made clear that it is the free competition among employers that is assumed in the static state which insures the full value of his product to the laborer. The pleasure and pain calculus is the main-spring of the whole machine.

Both wages and interest can be "translated" into the form of rents on concrete producers' goods, and these rents are elements in determining values. Clark denies peculiar significance to land rent, and such rent plays an almost inappreciable part in his system.

Professor Clark's theories have not remained unquestioned.<sup>2</sup> Relatively few are in agreement as to the organic

<sup>1</sup> Chap. II.

<sup>2</sup> See e.g., Carver's and Hobson's discussion in *Jr. of Pol. Econ.*, 1904-1905; Carver's discussion in *Q. J. Econ.*, August, 1891; Davenport's *Value and Distribution*, Chap. XXII; McFarlane in *A. E. A. Pubs.*, 3d series, Vol. IV, No. 1.

character of society, and some believe that such abstraction as characterizes his theory is hardly fruitful. His "static state" is after all quite similar to one in which the "natural" conditions thought of by the Classical economists exist. Hobson and others have attacked the validity of the "dosing" method of isolating the specific product of a given factor. Others deny that land can be treated as a mobile fund, holding that in this it differs from capital.

To the author one of the most interesting features of Professor Clark's thought is his philosophical consistency. His social point of view, his optimism, and his minimization of the limitations inherent in the differences in land are manifestations of a pretty thoroughgoing idealism. His hedonistic trend, however, introduces a jarring note.

Professor Simon N. Patten is one of the most original economists America has produced. His chief economic writings are *Premises of Political Economy* (1885), *The Consumption of Wealth* (1889), *Dynamic Economics* (1892), and *The Theory of Prosperity* (1902). To indicate briefly some of Patten's characteristic doctrines:<sup>1</sup> he has developed the importance of consumption, making changes that adapt it to environment a factor in reducing costs as men progress; he is optimistic, denying a law of diminishing returns; he regards the shares in distribution as price-determined, costs cutting no figure; and, in order to harmonize the idea of increasing demands with that of increasing returns, he makes monopoly normal and gives it a large part.<sup>2</sup> The idea of alternative use and opportunity costs

<sup>1</sup> For a review of his *Dynamic Economics* by Clark see Ann. Amer. Acad., III, 30-44.

<sup>2</sup> "The motives for production increase as wants grow in intensity; but costs fall off with the growth of productive power, thus destroying the equality between it and the return in goods. A new equilibrium is created on the market by the equality of marginal expense and marginal utility. Wants grow more rapidly than productive power; values rise, and producers gain a monopoly power equal to the difference between cost and the expense of goods. Monopoly is thus essential to a market equilibrium, and the monopoly fund has its size fixed by the natural excess of demand over supply. Intense wants and low costs of production have no other means of equating themselves." (*Theory of Prosperity*, p. 234.)

finds frequent expression. Patten has pointed out that land will not be abandoned exactly at the point where returns just fail to cover costs of bringing it under cultivation, but that production will be carried further.

Professors Clark and Patten differ markedly in the place which they give to monopoly. The former gives it scant attention, and its rôle in his theory is unimportant. With the latter the opposite is true. Accordingly, they also differ in the scope which they would allow to government interference, and, while Professor Clark would emphasize private property rights and minimize government activity, Professor Patten would allow to the government an active policy in maintaining the social interest. More recently, Professor Clark has perhaps made a larger place for government intervention, but it is for the purpose of maintaining his ideal of competition free from restraint.

Professor Irving Fisher published his *Mathematical Investigations in the Theory of Value and Prices* in 1892; but he has since summed up his theory in two volumes: *The Nature of Capital and Income* (1906), and *The Rate of Interest* (1907). Professor Fisher reasons with admirable clarity. By adopting the accountant's point of view he has shed new light, — though his books illustrate the difficulty of adopting new terminology. The Austrian idea is the dominant one: the value of capital goods, including land, is the discounted value of their income. And a point upon which much stress is laid is that income must not be confused with the material objects (capital) which afford it, but consists of the services rendered by such objects. The interest rate, whose determination Fisher would make the chief problem of economics, depends upon the "time preference" of individuals for present over future goods, — an *agio* theory. Professor Fisher deserves credit for early discussions of the relation between the value of money and interest rates, and he has done important work in support and clarification of the quantity theory of money.

Professor Fetter's thought, in its stress upon "psychic

income" and in its treatment of capitalization and time-value, has strengthened the recent tendency.

Quite different from the foregoing are the views of the two Harvard professors, F. W. Taussig and T. N. Carver. In addition to his works on the tariff question and *Wages and Capital*, Professor Taussig has published a two volume book entitled *Principles of Economics* (1911). This book is not designed as a contribution to economic theory, but it is valuable as a restatement of the Classical theories by one who is generally recognized as America's greatest teacher of economics. The doctrines of Böhm-Bawerk, Fisher, and others are on the whole skillfully merged into those of Mill and Marshall. From the point of view of pure theory the most notable features are the treatment of profits as a form of wages, and the peculiar theory that wages is the discounted marginal product of labor. A large part of the book is given to sane and lucid discussions of practical economic subjects, such as money and banking.

Professor T. N. Carver, in his *Distribution of Wealth* (1904), calls a halt to one-sided emphasis of psychology, and points to the economic environment factor. The book contains a noteworthy restatement of the law of diminishing returns and an able criticism of the Austrian ideas on interest, applicable in a great degree to Fisher and Clark. He makes the law of diminishing returns universal and not confined to land only. If to a limited quantity of any factor increasing quantities of other factors are added, a time will come when the return diminishes relatively to the quantity added. To Carver the question is, "Why is this income more than sufficient to keep the supply of capital intact, or to replace it?" As in the case of value, cost and productivity are synthesized. Unless the supply of capital were in some way limited, its marginal productivity would disappear; and these limits are the cost of making capital goods, and the sacrifice of waiting, including an element of incalculable risk.

There is a sense, Carver holds, in which rent does not



enter prices as wages do, for land is separable from the owner and does not have to be persuaded to work by some offer of advantage.<sup>1</sup>

Moreover, Professor Carver lays more stress upon the Malthusian theory of population in connection with the theory of wages than do the preceding writers.

In Carver's thought there is a strong strain of materialism which has found extreme expression in later writings in which he assumes that that is right which is capable of making itself universal and that we must try to discover what will enable the state to survive and then train our consciences to approve it. Adjustment to environment appears to have the central place.<sup>2</sup>

Professor Richard T. Ely has exerted a wide influence among American economists. His *Outlines* has been one of the most widely used texts in colleges and universities, and through his long teaching career at Johns Hopkins and Wisconsin, and his many able works, he has done much to shape the course of economic thought in the United States. Sanity and balance mark Ely's mature work; and he has made notable contributions to the definition and classification of economic concepts. His economic theories are similar to those of Taussig and Carver, but his philosophy is widely different. He may, on the whole, be classed as one of the older Historical School;<sup>3</sup> and his continued emphasis of the significance of social institutions, and especially those connected with property and contract, has been an important factor. He has led in broadening in the United States the scope of economics and in stressing what now sometimes is called the institutional approach to economic theory. His work has helped to keep American economists in touch with a social point of view which is practical and to prevent their forgetting the problem of justice in distribution. Professor Ely has in the past been criticized for "socialistic

<sup>1</sup> P. 207.

<sup>2</sup> *Essays in Social Justice* (1915), pp. 27, 32, 61.

<sup>3</sup> See above, pp. 492, 493. Ely's thought also shows the influence of A. Wagner.

tendencies." Time has proved that in reality he stood for a golden mean in social reform that now is the ground upon which the fallacies of real Socialism can most effectively be met.

Professor Edwin R. A. Seligman in the main follows J. B. Clark in his theory of value and distribution, but his thought is much more eclectic and he regards the scope of economics differently. Professor Seligman, in addition to being America's foremost authority in the field of taxation, has published a book entitled *Principles of Economics* (1905) which has gone through numerous editions. He has sought to harmonize apparently conflicting views, attempting to combine both the theories of J. B. Clark and the Austrian School and those of the Historical School, with the older doctrines. He gives the theory of value — which he bases on marginal utility — a prominent place. The influence of German economic thought is apparent in extensive treatment of subjects in applied economics, such as railway rates and insurance; and a notable breadth of view is shown in the emphasis of social institutions and historical background.

Professor H. J. Davenport is to be mentioned as the author of searching, stimulating, but indecisive, works on economic thought.

But the names of the great body of American Economists will be found among those who have written some monograph or article upon some special branch of economics. On the subject of monopolies and trusts there are Professors Ely, Jenks, and H. C. Adams. Professor Ely, in his *Monopolies and Trusts* (1900), presents an early and notable classification, and argues against the idea that large capital, as such, is a cause of monopoly. He formulates a law of monopoly price as follows: "The greater the intensity of customary use, the higher the general average of economic well-being, and the more readily wealth is generally expended, the higher the monopoly price." Professor Jenks' book, *The Trust Problem* (1900),

is noteworthy for its concrete discussion of the wastes of competition and its contention that capitalistic monopolies are real. Professor Adams, in his monograph on *The State in Relation to Industrial Action* (1887), holds that a law of increasing returns exists which operates to make the industries concerned monopolistic. This monograph has had a deep influence, and has done much to break down *laissez-faire* in theory.

In the monetary field, Dunbar, J. F. Johnson, Kinley, Laughlin, Scott, F. A. Walker, and White are well known. In public finance, Seligman, H. C. Adams, and Bullock are most noteworthy, and Hollander has also done important work in this field. Professor Seligman's works on taxation have been translated into several languages. In the transportation field Hadley, E. R. Johnson, B. H. Meyer, and W. Z. Ripley have earned permanent recognition. And Commons, T. S. Adams, and Seager have just fame as writers upon the economics of the labor problem.

Nor is industrial history slighted, as monographs too numerous to mention attest. The most notable works are Dewey's *Financial History of the United States* (1903), Taussig's *Tariff History of the United States* (1901), Hammond's *The Cotton Industry* (1897),<sup>1</sup> Noyes' *Thirty Years of American Finance* (1898), and Day's *History of Commerce* (1907). Professor Taussig's *Tariff History*, in which a modified protection is advocated, has had considerable influence. Books on the general industrial history of the United States have been written by Bolles, Wright, Coman, and Bogart.

A hopeful sign as to the future significance of economics apparent in America, as notably in Germany and Italy, is the employment of economists by the government. As early as 1893, Professor Folwell could say before the American Economic Association: "We seem already to have made some impression on the public. One of our members has been called to assist in framing a system of taxation; a

<sup>1</sup> A. E. A. Pubs.

second to assist the national railway commission; a third to give testimony in a case involving municipal ownership of gas works."<sup>1</sup> This tendency has grown. Among the men who have done notable work are H. C. Adams, formerly of the Bureau of Statistics and Accounts of the Interstate Commerce Commission; J. W. Jenks as agent for the United States Industrial Commission (1899-1901), special commissioner for the War Department to investigate currency, labor, etc., in the Orient, and in other capacities; W. F. Willcox as census statistician; C. P. Neil in the Bureau of Labor; Hollander in adjusting Porto Rican finance; B. H. Meyer first as head of the Wisconsin State Railway Commission, then as a member of the Interstate Commerce Commission; E. D. Durand in the Bureau of Corporations and later heading the Census Bureau; and many others might be mentioned. In fact, in America it is quite generally the case that academic economists have had some experience in some branch of government service, state or federal, and the war with Germany has so increased this trend that economic thought cannot but be benefited.

<sup>1</sup> *Ibid.*, VIII, pp. 31-32. The men so employed were, respectively, R. T. Ely, H. C. Adams, and E. W. Bemis.

## APPENDIX TO CHAPTER XXXIII

List of the chief economic works of the American Economists mentioned in Chapter XXXIII who were active between 1850 and 1900.<sup>1</sup>

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*Relation of the State to Industrial Action* (1887) A. E. A.  
*Economics and Jurisprudence* (1898) A. E. A.  
*Science of Finance* (1898).  
*American Railway Accounting, a Commentary* (1918).  
*Description of Industry—an Introduction to Economics* (1918).
- ADAMS, T. S., *Taxation in Maryland* (1900).  
*Labor Problems* (1905). Joint author with H. L. Sumner.  
*Mortgage Taxation* (1907).
- ANDREWS, E. B., *Institutes of Economics* (1889).
- ATKINSON, E. A., *Report on Bimetallism in Europe* (1887).  
*The Science of Nutrition* (1896).
- BASCOM, J., *Political Economy* (1859).
- BEMIS, E. W., *Coöperation in New England* (1886), A. E. A.  
*Municipal Ownership of Gas Works in the United States* (1891), A. E. A.  
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- BOLLES, A. S., *Industrial History of the United States* (1878).  
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*Practical Banking* (6th ed., 1889).
- BULLOCK, C. J., *The Finances of the United States, 1775-1889* (1895).  
*Introduction to the Study of Economics* (1897; new edit., 1900).  
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 "The Theories of Wages Adjusted to Recent Theories of Value," *Q. J. Econ.*, 1894.  
*Distribution of Wealth* (1904).  
*Sociology and Social Progress* (1907).

<sup>1</sup> A. E. A. indicates American Economic Association publication; *Q. J. E.* Quarterly Journal of Economics.

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## CHAPTER XXXIV

### CONCLUSION

**General Résumé.** — All the history of economic thought may be divided into two parts: one of these embraces the era before the establishment of economics as a science; the other extends from the rise of that science to the present time. In the earlier era, economic thought was mingled with religious and ethical doctrines and with laws, and did not exist as a distinct body of theory. This was the case in the ancient world and in the Middle Ages. Nor was there sufficient separate interest in economic matters to cause further development; for with Hebrew and Hindu, Greek and Roman, and Scholastic alike, we find, on the one hand, but a rudimentary development of such stimulating economic phenomena as those concerning public finance and the labor problem, while, on the other, hostile ethical and religious concepts so dominated as to hinder speculation about such economic problems as existed. Wealth was little appreciated by the leading thinkers. Throughout the period, men for the most part believed in an objective just price for goods and services, a belief normally accompanied by minute regulation of industry. Perhaps the other most notable points in the pre-scientific stage of economic thought are the discussion by Greek philosophers of division of occupation, "natural" uses, and communism; the Roman jurists' treatment of money; and the medieval doctrines concerning value and usury.

With the rise of nations and the growth of money economy came Mercantilism and the dawn of Economics as a science, — though it was but the first faint flush announcing what

was soon to be. Economic topics were given more frequent, extended, and, above all, more distinct attention. Wealth was highly appreciated. Its chief source was considered to be commerce, partly no doubt on account of an overemphasis of "treasure." In their empirical studies and policies concerning foreign trade, balance of trade, and taxation the Mercantilists laid the foundation for further development. In general theory, some fragmentary discussions of value and the analysis of the factors of production are noteworthy.

The real founding of the science of Economics, which marks the rise of the second era, came to pass about the middle of the eighteenth century, being closely associated with the contemporaneous revolution in social philosophy. Then it was that the Physiocrats, or *Économistes*, in reaction against Mercantilistic policies, elaborated the old Greek idea of nature and natural freedom as handed down through the Middle Ages. Wealth, they held, comes from Nature, and arises from her bounty. Agriculture, instead of commerce, thus took the center of the stage. And in the place of regulation, *laissez faire* became the watchword. Naturally the service of the Physiocrats was largely negative, consisting in greater freedom from hampering regulations and taxes.<sup>1</sup> More positively, their scheme of distribution became the father of succeeding attempts to trace the round of production, exchange, distribution, and consumption. Their emphasis of land and its surplus (*produit net*) was an influential conception. And, above all, their attempt to formulate a body of exact principles separate from morals, politics, and jurisprudence gave economics its first claim to be a science.

Adam Smith clinched that claim. Building upon the thought of English predecessors and the Physiocrats, and influenced by a different environment, he turned from "nature" or agriculture as the source of wealth, and gave to labor that position. While, on the whole, a believer in free

<sup>1</sup> Above, pp. 189 f.

trade and *laissez faire*, he was more of an opportunist, and was less rigid and absolute in applying his doctrines. Smith's work was fuller and more comprehensive than that of Quesnay or Turgot, and the firm establishment of Political Economy may justly be dated from the *Wealth of Nations* (1776). Smith took the sole emphasis away from production, putting the consumer more to the front, and in doing so prepared the way for a broader treatment of economics. He also presented a more comprehensive discussion of value and the shares in distribution than any predecessor. Although some of his followers wrote more accurately and consistently than he, Adam Smith excels the great majority of them in breadth of view, and there came a time when many economists turned back to the Father of Political Economy rather than to his immediate successors. Much of what is here written concerning the Classical School will apply to him only in part.

The *Wealth of Nations* soon gained ascendancy in the leading countries, and the followers are mostly to be classed as members of the Classical School. There were, however, three main branches, corresponding to as many different national environments. In England, a group of economists, with whom the designation "classical school" is generally associated and chiefly of whom what follows is written, centered around Ricardo, accepting his doctrines of rent and adding the Malthusian principle of population. With this group, the problems of distribution of wealth were for the first time given chief attention; the main framework of their economic thought consisted of the theory of value and the shares of the factors of production, land, labor, and capital. In their reasoning, the interests of these factors were made more or less antagonistic, and their views tended toward pessimism,—a tendency logically connected with materialism and individualism. Value was regarded as cost-determined, and was treated as an objective phenomenon by the dominant element.

In France, J. B. Say (1803) contributed to the arrange-

ment and classification of the new science. There, a larger element of the eighteenth-century nature philosophy remained, and the general tendency was toward idealism and optimism. This general tendency being in logical accord with the philosophy of Socialism, it is easy to explain the fact that in France the earliest nineteenth-century socialistic propaganda flourished. "Liberalism" was the term which came to be applied to French Classicists and in general to the continental followers of the English Classical political economy.

German economists, largely on account of their Kameralistic background, had a somewhat different notion of economics. Though Smith had a small group of very close followers, Ricardo was not so generally accepted, and the abstract theorizing on problems in distribution is not often found. The significance of national lines and moral forces was more recognized, and administrative and financial matters were given more attention.

Remembering the differences among its branches,—and especially its relatively slight hold on Germany,—it may be said that the members of the old Classical School stood for certain philosophical tendencies, a closely associated methodology, and a group of characteristic economic doctrines. As to their philosophy, it was, speaking generally and in a pretty sweeping fashion, materialistic utilitarianism. They considered tangible, material things; they were individualistic—"the alliance of political economy with Utilitarianism may be said to have given a new lease of life to the individualism of the eighteenth century";<sup>1</sup> they were hedonistic, emphasizing deliberate calculation of pleasures and pains almost to the exclusion of habits and instincts. Yet the development of economics along truly scientific lines was hampered by the dominance of an ethical element in their thought which was based upon the preceding individualistic nature philosophy; for "freedom of competition" was made an ultimate test. The results of perfect freedom were not to

<sup>1</sup> Bonar, *Philosophy and Political Economy*, p. 219.

be questioned. Freedom, moreover, was generally a purely formal concept, meaning freedom from legal restraint, and the like, rather than real economic freedom. Hand in hand with this philosophy went an abstract-deductive method.<sup>1</sup>

Some of the most marked characteristics of the doctrines of the Classicists may be stated as follows. To them, value generally meant objective exchange value. Estimation by the subject received scant attention,—though this is less true of France than of England. Accordingly, the part played by utility was underemphasized. Value was regarded as determined by cost, and throughout a greater part of the Classical period there was a constant tendency to emphasize labor-pain costs as the ultimate thing. They often confused the entrepreneur with society, shifting their point of view from one to the other; for there was no clear appreciation of the distinction between the idea of ultimate social costs and the expenditures of the business undertaker. Their system, furthermore, considered exchange values as the ultimate thing: wealth equaled a quantity of exchange value. Accordingly, little attention was given to public wealth as distinguished from private riches; and, while a clearly avowed limitation of the scope of the science to objectively measured exchange values is quite permissible, there was point to the criticism that the broader considerations were slighted and confused with the narrower by them. Their idea was that welfare depends upon a stock of material goods, and production was encouraged without regard to the law of diminishing utility. Lacking the idea of marginal utility, they did not realize the limitations of their point of view. The school held to the tripartite division of the factors of production,—land, labor, capital,—and emphasized the distinctness of each. All believed in the peculiar importance of land and the margin of cultivation, but there was a split in the ranks over the merits of the landholders' interests. The Classicists of the dominant type, however, all consciously or unconsciously upheld the interests of capital and

<sup>1</sup> Cf. above, pp. 17 f., 275 f.

of the capitalist class, making capital an independent factor upon which labor was thought of as being largely dependent.

Needless to say, the foregoing principles and theories found expression in the advocacy of a body of rules of action, the art of applied economics. Such rules as concerned poor-relief, tariff, taxation, and organized labor are well-known examples. The members of the Classical School were largely practical in their purposes and much of their thought appeared in pamphlets dealing with the issues of their day.

Almost as soon as they began to take shape, critics rose against these philosophical ideas, methods, and economic doctrines; and as they grew and hardened, dissenting schools came into existence. Several of the earliest critics (*e.g.* Lauderdale, Rae, Sismondi) accepted individualism and materialism in part, but stood for a recognition of the lack of harmony between public and private interests, and for a contrast between utility and exchange value. With an unconscious ethical basis, the possibility of overproduction was implied or stated.

Next one notes a nationalistic criticism, a criticism most characteristically German, though it found expression in America. Opposing the validity of the cosmopolitanism of the Classical theory, such men as Adam Müller and Friedrich List stressed the importance of the state and of national lines as limiting the application of economic laws. Such thinkers were idealistic in their tendencies, one evidence of their idealism being their exaltation of the political institution and their opposition to individualism. They opposed free trade as a general rule.

Then Socialism presented a still more radical opposition to the dominant Classicism. Beginning with the utopian, bourgeois thinkers like Saint-Simon, Owen, and Fourier, the Socialistic thought tendency reached a climax with the materialistic and revolutionary doctrines of Marx and Engels from 1848 on. As Socialism developed, it underwent a striking transformation in philosophy. From idealism, it passed

through an attempt at realism to materialism. From associationism, through nationalism (State Socialism) it passed to internationalism. This development attended a growing revolutionary aspect. Now, more lately, with more opportunist and "evolutionary" tendencies, the materialism of Marx has been questioned. Socialism as a *positive* force is logically connected with the philosophy of idealism.

As a school of economic dissent, Socialism has brought the question of distributive justice to the front, has led to the study of such postulates of economics as the "rights" of private property and contract, and has made economists thresh out such questions as the labor theory of value and the idea of surplus.

Meanwhile, especially in Germany and England, signs of a coming revolt against the dogmatism of the Classical School appeared in the forerunners of the Historical School. Sismondi, Müller, and List, and Richard Jones may be mentioned, and the significance of the French philosopher, August Comte, in this connection is not to be forgotten. While the preceding opponents had assailed the philosophical and ethical system of the Classical School, this movement was primarily directed against the method; though it was necessarily closely related to the philosophy on the one hand, and the logic of the theory on the other. It was stimulated by the Hegelian philosophy and the current developments in jurisprudence, philology, and ethnology.

But before the historical movement could culminate, John Stuart Mill attempted a restatement of the Classical system, his *Principles* appearing in 1848. Mill's face was turned toward new things, but his mind was filled with the teaching of Ricardo. The result is that his work has been justly called unfinal and transitional. We know that he was influenced by the Saint-Simonians, Thompson, and other Socialists and social reformers. The criticisms of Sismondi and Rae were well known to him. Certainly his strong idealistic and humanitarian tendencies, his belief in man's power to modify industrial conditions for the better, and



his distinction between national and individual wealth are evidences of a partial alignment with the forces of dissent. He was hardly affected, however, by the beginning of the movement for a more concrete and historical method; though his logical training led him to state his premises more clearly than the great majority of his predecessors. Mill's *Principles* is more largely devoted to what is sometimes called social economics than were the works of most of the Classicists, and dynamic problems, such as the future of the labor classes and the tendency of profits to a minimum, are given much attention. His discussion of the grounds for government interference is notable. The chief contributions in pure static theory are his treatment of value and international trade, though even here the unfinal element appears, and the theory is not fully coördinated and digested. In fine, Mill's restatement could not be permanently accepted. While its style, spirit, and sound logical merits have given it a wider reading than any other English work on economics, it was built of diverse elements which were not closely enough analyzed nor consistently coördinated.

Later Classicists (Fawcett, Cairnes) attempted to give a more precise and consistent statement of the terms of definitions, and at points refined and perfected the analysis of the forces of distribution;<sup>1</sup> but the Classical economists fell into considerable disrepute.

Contemporaneously with Mill, the scattered tendencies to revolt against the abstract deductive methods of the Classical School were brought to a head and fully developed by the German Historical School, beginning with Roscher, Hildebrand, and Knies. There was a corresponding, though less influential, movement in England.

All the time, too, German and later American economists were working toward an analysis of gross profits which led to important developments in the theory of capital, interest, undertakers' gains, and pure profits;<sup>2</sup> and during Mill's lifetime the assaults of English and American writers (Longe,

<sup>1</sup> Above, p. 591 f.

<sup>2</sup> Above, pp. 509 ff., 521.

Leslie, Thornton, Walker) led to the almost dramatic downfall of the wages-fund theory.

One little spring which had begun almost unnoticed to trickle into the troubled current of economic thought has not been mentioned. This was the idea of utility and the subjective in questions of valuation. Suggestions of the idea had appeared here and there, but Lloyd (1834) and Gossen (1854) first made it exact by distinguishing marginal utility, the latter's treatment being much the fuller. Then, in the seventies, Jevons, Walras, and Menger won a hearing for the idea, and further progress was made toward utilizing it in the explanation of market values.

It was under the stimulus of the marginal-utility idea that a new school arose which, while largely following the Classical School in philosophy and method, sought to reconstruct its theories upon a subjective basis. This is the significance of the Austrian school. Menger was the Austrian pioneer; Wieser will ever be remembered for his work on the general theory of value; and Böhm-Bawerk, while doing excellent work in the same field, has gained most prominence in the particular problem of valuation of capital, and interest. Phillipovich is the author of some of the best-balanced work by this school. A leading motive of the school has been a desire for unity and consistency in theory, — a desire which finds expression in rebellion against the two-sided determination of value by demand (utility) and supply (cost), — and a great service has been a more unified and consistent application of principles of valuation. The influence of the school has been deep and widespread, being very noticeable in America.

On the other hand, what may be called the neo-classical school has arisen in England under the leadership of Professor Marshall. This school seeks to combine the valid criticism of various dissenting groups with the sound portion of the Classical doctrines. Thus the marginal-utility idea is not accepted as in any degree supplanting the Classical theory of value, but as being merely a refinement of the

utility side; value remains as an objective point of equilibrium between the forces expressed in demand and supply. A considerable body of economists in America, Italy, and Germany is in accord with this synthesis.

**Continuity and Environment.** — The history of economic thought affords abundant evidence of the influence of his environment upon man, and man's reaction upon his environment. The molding influence of those physical and psychological laws which so largely determine the economic situation, social institutions, and intellectual plane, is clearly evidenced in the evolution of economic theory. These latter factors both decide what problems shall confront man, and, on the other hand, so act upon the man himself as to modify, though not solely determine, his point of view. Thus, in the Middle Ages, the economic situation was changed by the growth of commerce and a money economy, and, on the one hand, new problems concerning value and interest were presented, while, on the other, men were to some extent shaken out of the asceticism. In more recent times, the capitalistic organization of industry, and the growth and organization of the wage-earning class have effected profound changes in problem and point of view. Similarly, such social institutions as the "rights" of private property, contract, and inheritance, and the forces of custom and government activity, in their development, have modified economic theories. This is especially true in the case of the more practical rules and doctrines, for into the formulation of such rules and doctrines the prevailing social order enters as a more or less consciously adopted premise. Finally, the general intellectual progress finds expression in economic theories. Now it is some development in the methods of natural science, now in philology, again in jurisprudence or philosophy. We see this interrelation, for example, in the progress from the theological "stage" to rationalism, and in the methodological disputes of the nineteenth century. In brief, a large part of economic laws are relative to time and place.

But, as already pointed out,<sup>1</sup> economic theory has been in

<sup>1</sup> Above, pp. 220, 380, *et passim*.

its turn a positive force reacting upon economy, social institutions, and other sciences. And this is notably true at the present time, when no one can look around without realizing that through legislation based upon economic principles his life is increasingly modified (taxation, labor legislation, corporation laws, etc.).

In fact, in emphasizing the relativity of economic doctrine, men have often been too prone to overlook the element of direct continuity, which has handed down the theories of individual thinkers or groups of thinkers to successors, so connecting one time or place with another in a more absolute way. From the many illustrations of such continuity which might be presented, only a few can be mentioned. The case of the nature-philosophy idea is a classic one.<sup>1</sup> Appearing in Greek philosophy, it was formulated in Roman law, elaborated by the Scholastics, made a basis of the Physiocratic system, and is found as a taint in the logic of the Classical economics. Quesnay's *Tableau* had mottoes from Socrates and Plato's *Laws*. Aristotle expressed certain ideas about the barrenness of money and injustice of interest; these were repeated by the Schoolmen; and the Mercantilists of 1690 were still talking about the moral justification of interest. Xenophon was continuously read, and is referred to by the Mercantilist, Davenant. Cicero drew his ideas concerning labor directly from the Greeks; Hutcheson his from Cicero; Smith his, in part, at least, from Hutcheson. The labor theory of value well illustrates the idea. The Mercantilists — to go no further back — had the idea of labor as the father of wealth; this idea found expression in Adam Smith and Ricardo; and was adopted by the Socialists as a leading doctrine. Or, take Kameralism. The Kameralists drew largely upon the *Corpus Juris Civilis*,<sup>2</sup> and German economics, with its practical bent and emphasis of the juristic side, sprang from Kamer-

<sup>1</sup> Above, pp. 59, 68, 164, 219 f.

<sup>2</sup> The Kameralists were also influenced by contemporary English thought. (See above, pp. 141, 144 n.)

alism. To what extent were Gournay's views what they were because he was a merchant, and to what extent because he studied and translated Gee and Culpeper? We know that Süssmilch read Petty, that Sonnenfels followed Süssmilch, and that Malthus studied Sonnenfels. Even Ricardo acknowledges indebtedness to Turgot, Steuart, Smith, Say, and Sismondi; while Mill was deeply affected by his studies in the works of various writers who dissented from Ricardo's views.

Certainly one cannot but be impressed with the fact that it is an extremely difficult matter to trace an idea to its ultimate source, and that in many, many instances a theory may be traced directly back through a series of writers. Of course, even so, the very fact that the idea was adopted may have been due to local environmental conditions. Yet that, throughout all the course of economic thought, the thinkers have been directly interrelated through their writings in an important way, can hardly be denied.<sup>1</sup>

**Some Main Points of Difference in Economic Thought.**

—1. *Ethical Dissent from Exchange-Value Basis.*—The general outline of the rise and fall of economic schools has been traced in the foregoing résumé. Throughout the movements and tendencies so sketched, one thread runs which should be mentioned in this summary, and that is the thread of opposition between an ethical idea of utility, on the one hand, and a non-ethical concept of exchange value on the other. From the beginning of economic thought, consciously or unconsciously, this opposition has been a fruitful source of dissension. Aristotle set forth the difference with great clearness, and took the utility side.<sup>2</sup> According to his view, there is a limit to what man needs, which constitutes the natural or proper limit to consumption. Beyond this limit lies mere wealth-getting exchange, which has no limit and is unnatural. Overlooking the possibility of a

<sup>1</sup> The direct and absolute influence of the Physiocrats has never been thoroughly worked out. Their notions affected Lauderdale and a number of minor English writers, and Sismondi; and through these men, influenced still others.

<sup>2</sup> See above, p. 59.

science based upon exchange values, he decried wealth-getting "chrematistics" as being contrary to his ethical ideal. Some of the points of opposition which appear in the thought of those who show similar tendencies may be indicated thus:—

Limited needs	<i>vs.</i> indefinite sum of satisfactions.
Leisure necessary	<i>vs.</i> continuous striving to produce.
Consumption emphasized	<i>vs.</i> production emphasized.
Overproduction possible	<i>vs.</i> no over-production possible.
Public-wealth (weal) point of view	<i>vs.</i> private-riches point of view. <sup>1</sup>
Societism (socialism or nationalism)	<i>vs.</i> individualism.
Utility (total)	<i>vs.</i> exchange value.

It is obvious, at a glance, that the second column embraces some of the leading ideas of the Classical School; while the first contains those of several schools of dissent. With the dissentients would fall Sismondi, and, in part, Lauderdale and Malthus. And the Nationalists and the Socialists would be classed with them on this score. The line of cleavage is ethical, the dissentients one and all proceeding on ethical grounds in their criticism, setting up ideals as to the good or the natural.

The answer to such critics must ever be: You do well to point to the higher spiritual considerations, to emphasize the ethical point of view, and to dwell upon the evils of the present system; but economics as a distinct science has no direct connection with these things. Its point of view is non-ethical, its proper phenomena are the valuations involved in exchange, and it deals with the existing social and industrial order and the automatic coördination of economic activities through exchange.

2. *Optimism and Pessimism.*—Generally, though not necessarily, connected with the foregoing difference in point of view has been the division between optimists and pessimists in economic thought. The division does not appear to be of the most fundamental importance, nor is it based upon pure science; but it has characterized the thought of certain

<sup>1</sup> See above, pp. 53, 348 f.

periods and nations. As a rule, the most immediate and obvious point of difference between optimists and pessimists is found in their views concerning the relation of public and private interests: those who believe the two run parallel or are identical are optimists or tend toward optimism; those who see opposition and clash between such interests naturally tend to take pessimistic views. Or another point of difference may be seen in the attitude of the two groups of thinkers toward the imminence of the "stationary state" of society. To get at the bottom of these tendencies, one would have to resort to the philosophies of idealism and materialism, with their analogues, societism (belief in group control) and individualism.

Idealists believe in the ability of man to dominate nature and put off the evil day of the stationary state; which is a comfortable belief, and tends toward optimism. Moreover, in advocating group control through social institutions, they look to the elimination of discordant individual or private interests. Now the matter is not so simple with the materialists and individualists, for they have been divided into two groups. The French school of Liberalists, for example, has apparently not departed from the idea of man's dependence upon natural environment, but, following the Physiocrats, they have regarded the rule of nature as beneficent, and so have been led to doctrines of harmony rather than pessimism. On the other hand, the English Classicists for the most part believed that nature was a niggardly jade whose one great law was that of diminishing returns. Her sway, then, they tended to regard not as beneficent, but as harsh and leading to a stationary or declining state, and hence their views were, on the whole, rather pessimistic. Adam Smith sometimes dwells upon the harmony of interests secured by interplay of private motives as guided by a divine hand, and again he emphasizes the discordant elements of society. The French followers took the system of harmony; the English could not reconcile the conflicting interests which their analysis disclosed.

3. *Various Theories of Surplus.* — One of the most interesting threads of development in economic thought appears in the various doctrines of surplus, an obvious point of significance being the bearing of such doctrines upon questions of taxation and government interference. This thread can be but barely indicated. The purely economic idea of surplus is one concerning a return in excess of the amount required to secure the coöperation of a factor of production, that is, the excess over cost under competitive conditions. The Physiocrats made land the source of a great surplus, the *produit net*. The Classical economists analyzed and elaborated the idea, introducing the concepts of intensive and extensive margins, and making rent a differential return measured from such margins. Thus rent was made a relative surplus obtained by comparing different units of land or investments on land. Some of them also regarded land ownership as a monopoly which might bring the landlord abnormal returns in the shape of an absolute surplus. About the middle of the nineteenth century, the doctrine of "unearned increment" became fully developed in England (J. S. Mill), the idea being that increase in land values is largely outside the scope of individual activity, and due to society. This doctrine passes over into ethical regions.

Some tendency to regard profits (interest) as containing an element of surplus is manifest, — in the residual claimant idea of Ricardo, for instance, — a tendency fostered by the lack of a clear analysis of this share in distribution; but Senior's abstinence theory put interest upon a cost or earned basis, and the final separation of undertakers' gains and pure profits cleared the situation further. In recent times the extension of the differential-return analysis to labor and capital has tended to broaden the idea of economic surplus; while the distinction between static and dynamic theory has introduced a further extension of the idea where cases of friction, conjuncture, and other factors give more or less temporary surpluses from the dynamic standpoint.

More refined, but somewhat akin to the Physiocratic idea,



are certain optimistic theories of more recent times (*e.g.* of Professor Patten). A few writers, denying the law of diminishing general returns, believe that costs decrease and that a surplus arises on account of increasing demands. Or, to put it in another way, they believe that man, gaining more control over nature, is able to produce enough to more than restore the energy he expends. This surplus would be held by producers as a monopoly return.

The use of the "dosing method" in economic analysis has caused some thinkers, beginning with H. von Thünen, to chase a will-o'-the-wisp surplus which seems to arise as equal units of a factor are successively applied in production with diminishing returns.<sup>1</sup>

Again, an ethical notion of surplus exists. Here, perhaps, would come the idea of overproduction which has been briefly analyzed in the preceding section. Also the various notions concerning excessive wealth are to be mentioned. But the Socialistic idea of surplus value deserves chief attention. The surplus-value idea is most clearly expressed by Rodbertus and Marx, though it is suggested by von Thünen and Sismondi. According to these writers, labor is exploited, or robbed of a part of its product, which is retained by the capitalist class as a surplus. These various notions concern an amount in excess of what is just and proper, one generally secured by unjust or improper means. The Socialistic doctrine is connected with economic analysis, but its chief bearing is an ethical one.

The most recent idea of surplus to find currency among economists is of quite a different order, being psychological, and consisting not in value but in utility. This is the "consumers' surplus," and arises from the fact that the consumer would sometimes be willing to pay more for a utility than he is compelled to do by market conditions.

4. *Cost vs. Utility.*—Another fundamental difference among economic thinkers concerns the emphasis of utility in economic valuations. Aristotle began by emphasizing

<sup>1</sup> Cf. above, p. 340.

wants and utility, and a scattering list of thinkers like Barbon, Galiani, and Condillac did likewise; but as men began the industrial conflict with nature, the costs of production loomed large and were emphasized. The Classical theories of value were cost theories, with labor cost most prominent. But a reaction came in the seventies, and then utility was overemphasized by Jevons and the Austrians. More recently a well-balanced combination of the two has come to the front: utility and disutility are brought into a synthesis.

A concomitant development of the theory of consumption is to be noted. Slighted by the Classicists, and with its relation to production misconceived, "consumption" has taken its place as a distinct part of the modern economic manual.

5. *Subjective and Objective Points of View.* — Following closely the preceding development has been one in the adoption of subjective and objective bases for analysis. Perhaps the earliest tendency was subjective, but the founding of the science came with objective tendencies, and, on the whole, costs and values were regarded objectively by the Classical economists. This went hand in hand with the emphasis of cost,<sup>1</sup> and was especially prevalent in England. According to this way of looking at things, costs are objective facts measured in the market, being often identified with the expenses of the entrepreneur; and market values are objective records of the forces of demand and supply. Then, with the emphasis of utility, came the subjective tendency of Jevons and the Austrian school, and the psychology of economic values was more fully analyzed. The attempt was made to fuse utility and cost in a common subjective crucible; the objective limitations of man's physical environment were relegated to a place of secondary importance, and "estimation" was given the central place. "Subjective exchange value" was distinguished. Marginal utility was made a veritable fetish.

The question still remains: Shall we attempt so to analyze motives and valuations as to find an ultimate explanation of

<sup>1</sup> But Senior combined cost and subjective points of view.

price determination,— of the first price,— or shall we accept the exchange values which result from the competition of the market as ultimate data? Shall we take the social or the entrepreneur point of view? It may be confidently predicted that any analysis of motives which minimizes the objective will hereafter be recognized as one-sided, while it is equally certain that the entrepreneur's expenses will not be accepted as ultimate.

**The Present and the Future.**— At the close of this long survey of the development of economic theory, it is not unnatural to ask, Where are we and whither are we tending? A few very broad generalizations concerning the present and near future of economics may with some hesitation be hazarded. It would ill befit an account so full of recorded errors to venture upon dogmatic predictions, and what is here written is but tentative, to be interpreted in the light of the time by some future historian.

So much has been written about the philosophy and method of various economists of the past that one wonders what may be said about those of the present in this regard. Originally, ethical and economic considerations were intimately blended, and the philosophies of idealism and materialism were not distinguished. In the nineteenth century, economists often tended, on the one hand, to cast out ethical considerations through the door of vicious abstraction, and, on the other, to adhere more or less consciously either to materialism or to idealism and to correlated tendencies toward individualism or societism. At present, however, a conscious allowance is made for ethical factors in social life, though they are kept the more distinct for this fact; while the clear tendency is to eschew idealism or materialism and to seek the truth in a recognition of their interrelation.<sup>1</sup> The materialism of mechanistic and behavioristic psychologies will have its vogue, but in the end will yield ground before the facts of individual character, merely serving to supplement our knowledge of human motives. So it is

<sup>1</sup> Cf. above, pp. 16, 429 f., 450 f., 561 f.

with method. The old war of methods is over, and though new questions may arise, each economist now uses in peace the method proper to himself and his particular theme,—save only that abstractions are more consciously entered upon and deductions more carefully guarded and verified. In a word, on the score of method and philosophy economists have passed from the naïve, unsophisticated stage to one of scientific self-consciousness.

But one exception appears noteworthy, and even in this case the question is already understood. This exception is the problem of hedonism and the pleasure-and-pain calculus. Except on a very abstract basis, it will be agreed that such a calculus can hardly serve as a foundation for economic analysis; yet without it the confusion of numerous motives makes one hesitate to formulate principles. Few if any hold to hedonism as an explanation of the actual or concrete; but many choose deliberately and avowedly to abstract other motives, making economics ("pure" economics) an hypothetical science. Considerable doubt exists as to what is the truest and most practicable course, a doubt which seems to lead to the establishment of different branches or departments of economics. That there is danger in such separation and abstraction, history amply attests; but surely, with the long struggle between the Classical and Historical Schools before him, the twentieth-century economist may escape the rock and whirlpool which wrecked the logic of his predecessors.

In fact, as one looks back over the course of economic thought, one can realize some tendency toward general, "pure" economics. The Classicists (Ricardo, Senior) tended in that direction; but with Mill and the Historical School all manner of sociological and ethical data were embraced. More recently, a mass of technical data from the "natural sciences" and business organization has been exploited, while psychological and philosophical materials have been drawn upon. But now sociology has become a fairly distinct discipline; ethics has been enriched by economic

infusions and gained in the exactness of its valuations; while on all hands one hears of such subjects as economic geology, economic zoölogy, economics of agriculture, business economics and the like. "Politics" or "government," too, has grown in importance and distinctness. Thus, by clearing economics of related but separate motives and "sanctions," and relieving it of a sort of duty to cover related phenomena, the way has been prepared for a pure economics which shall be well rounded and at the same time distinct and closely coördinated.

A closely related distinction, that between public and private economics, appears to be increasing. The growth of college courses and literature along the lines of private finance and semitechnical commercial subjects points this way. The term "political economy" might almost be rejuvenated to designate the branch which would take the social point of view, though "social economics" is perhaps a better name. Private economics takes the individual point of view in defining wealth and income, and costs.

Among the various subjects in pure economic theory, capital and interest at present may be said to hold the center of attention. Here the primary necessity seems to be to come to a final understanding as to the nature of capital, on which point several controversies have been carried on. Is capital an abstract mobile fund?<sup>1</sup> Is it the aggregate of concrete capital goods? If the former, any concrete good in which the fund may be embodied, including land, may be regarded as a capital good, and a tendency to slight the consideration of cost and supply of concrete goods follows.<sup>2</sup> If the latter, costs come to the front, and the peculiar significance of land rent clearly appears. The latter view was held by the Classical economists, and the former arose as a result of the subjective way of looking at things and the emphasis of utility. American economists are divided on the question.

<sup>1</sup> Of course, if this fund is thought of as a fund of values, the question of interest determination is begged, — value of capital depends upon interest.

<sup>2</sup> As a matter of fact, the cost and supply of the concrete good, considered merely as an embodying medium, is significant.

So it is with interest. Fresh analysis has been brought to bear, with the result that new factors, or new aspects of old factors, are introduced. Accordingly, some theorists emphasize the difference in estimation of present and future, making interest an *agio*; others attribute it to superior productivity of roundabout methods; and still others hold to abstinence, or the costs of saving and waiting, as the explanation. Certainly the Classical theory has been much broadened and enriched. The truth would seem to be that none of these theories is entirely wrong. The *agio* and cost theories may be regarded as complementary, and both are supplemented by the roundabout process theory. The tendency of recent text-books and teaching, in America, at least, appears to be toward a working synthesis of interest theories.

In any case, it is clear that capital no longer occupies the place of independent importance that once it held. For one thing, the entrepreneur has clearly ousted the capitalist from active participation in industry; and again, organization is being spoken of as a factor. Capital is regarded as a secondary factor assisting labor and physical environment. Economists no longer regard it as that which determines employment and wages, but put man and human wants, as interrelated with physical environment, first.

Perhaps the theory of pure profits, or profits proper, is in the least satisfactory condition, although history shows great progress. The undertakers' gain has been separated from rent and interest, and, more recently, from wages,—ordinary contract wages, at least. Thus, considered as a total surplus, the scope of profits has been narrowed and made more definite. Much has been accomplished toward a complete understanding of the factors which give rise to such a surplus. But, as yet, no one consistent theory for the determination of this surplus has become generally accepted. Two chief theories are advanced: one, the "risk theory," which makes profits the result of uncertainty, is an old idea with a new and more exact significance; the other regards profits as a reward, not for risk, but for such

services as coördinating the factors of production and making business plans and organization.<sup>1</sup> According to the latter theory, the net risk is borne by capitalists. A third kind of profit theory might be called the "changes theory." It would attribute profits to unexpected changes in prices, inventions, etc.

The tendency to distinguish static and dynamic economic fields has undoubtedly helped toward a clearer understanding of profits proper: most thinkers agree that under dynamic conditions the total surplus known as profits is greater than under an assumption of static conditions, elements of chance and change being increased.

Time was when an imperfect analysis left much of distribution in the residuum. With Ricardo, for example, interest was the residual claimant. Now the left-over share has been reduced to profits, and parts even of that residuum may be positively explained, that is, may be reckoned as costs of production or as rewards for definite productive contributions. Just as interest and profits are no longer confused by the economist,<sup>2</sup> the time is at hand when the contents of the pure-profits catch-all will be reduced, leaving perhaps a minimum element of chance gains arising from unforeseeable and purely fortuitous circumstances. In order to obtain this result, it may be necessary to distinguish a new "share" in distribution.

One of the clearest evidences of the current tendency to a synthesis of the main antitheses in past economic thought appears in recent developments in the treatment of marginal utility in relation to value. The marginal-utility mist is being cleared away. Even the plea that this expression is a convenient way of putting together the forces back of de-

<sup>1</sup> "Profits are due, not to risks, but to superior skill in taking risks." — FETTER, *Principles*, p. 291.

" . . . profit arises from the fact that he (the entrepreneur) is able to reduce his own risk below that which others would have to bear." — CARVER, *Quar. Jr. Econ.*, May, 1901.

<sup>2</sup> "Gross profits" to the younger economists seem to be a sort of historical concept retained out of respect to John Stuart Mill, *et al.*

mand and supply has been questioned. That marginal utility is reacted upon by price, that it is in part an expression of scarcity and cost, that it is only an individual estimation not yet translated into market price, — all these things are now pretty generally realized. We no longer regard it as an ultimate touchstone for the solution of value questions.

But the importance of the concept of marginal utility in connection with income distribution is realized as never before. Everywhere the utility concept has replaced that old notion of material wealth.<sup>1</sup> Practically, and in truth, wealth is a relative matter: where the quantity of material goods is great, the utility of the unit is small, and *vice versa*. The difference between wealth and well-being appears very forcefully, and in judging the latter the economist is compelled to recognize the limitations inherent in his own point of view.

To recall the various stages through which the development of economic thought has passed will serve to throw light upon the present condition of economics. Back in the 16th and 17th centuries, Mercantilism held sway, and the thought of the time was characterized by a belief in paternalism and in the conflicting interests of political states; each state was regarded as built up in a mechanical way of separate individuals, whose interests clashed with those of the state. The hand of each nation was raised against all other nations. In reaction from Mercantilism came Classicism, which put *laissez faire* in place of paternalism; and cosmopolitanism in theory in the place of conflict among states. The welfare of the individual and of the state was generally regarded as identical or nearly so. In opposition to Classicism, Socialism arose, and the beginning of the Historical School. Then came Neo-Classicism, which softened each one of the main doctrines of Classicism and recognized a considerable number of exceptions. Especially was the marginal and rent analysis broadened, and the concept of society

<sup>1</sup> E.g. in the definition of "production."



was somewhat perfected. The Austrian School is essentially neo-classical.

Now the world is witnessing a recrudescence of Mercantilism. Paternalism is rampant; individuals are set sharply over against their governments; nationalism is the watchword of the hour. Even the economic doctrines of the Mercantilist are ascendant, such as mercantilistic ideas about money and the balance of trade. The trading companies of the 16th and 17th centuries are finding their duplicates in corporations encouraged by governments to develop export trade; associations of business men in each industry are paralleling the guilds; and labor organizations are also taking on more and more of guild-like character. How long this stage will last, no one can say. But, one who looks at things from the point of view of history, especially if he be reasonably optimistic, can well predict that this is but an experimental stage in the great laboratory of time from which in the end will come a new Classicism much more perfect than that which arose at the beginning of the 19th century. For one thing, the exigencies of the time have emphasized the need of statistics — of “political arithmetic”; and if, by the perfection of statistical measurement, the science of economics is enabled to take on a more exact character, a great step will have been taken in advance. Surely all economists have regretted the lack of quantitative analysis. Again there has been a great education in common consciousness; or perhaps it would be better to say in conscious commonness.<sup>1</sup> Men have been forced to act with other men in close coöperation; they have been compelled to take a true social point of view. Economists have been forced to come to the front and deal with the practical issues of the state, and to help save the life of the nation, in such a way as is bound to affect economics for the better.

I do not see in what has taken place, or is likely to transpire in the near future, anything which constitutes a revo-

<sup>1</sup> See Haney, “The Social Point of View in Economics,” *Quarterly Journal of Economics*, Vol. xxviii (1913-1914).

lution in economics. Some have thought that the War will scrap a large part of the science. It seems more likely, however, that it will but prove the soundness of many "old" theories. The theories of international trade, of money, value, rent, diminishing returns, and many others, have been useful in a practical way, and have been strengthened rather than disproved. With greater statistical knowledge, and with a truer social point of view, we will some day revolt from or develop out of Mercantilism. The day of cosmopolitanism is far off, but perhaps not much farther than the days of Machiavelli, Henry VIII, or Colbert.

To-day, though debate rages on all sides, the dominant note is one of tolerance, and there is an increasing amount of broadminded eclecticism. Nationalists are less narrow; Socialists are revisionistic; the historical group is less negative and more tolerant of deduction; the Austrians and Neo-Classacists, more careful in recognizing variety of motive and relativity of theory. Economists are realizing the interrelation of things; more and more the quest for absolute laws of causation is modified by a knowledge that things move in circles and mutually determine one another, as do supply, demand, and price. Hand in hand with the increasing distinctness of various economic branches like transportation, public finance, money and banking, and population, the central body of economic principles has grown in amount and in unity. Now, as ever, policies and programs are at issue, but as these rise and fall the science stands. It may safely be said that never since the heyday of English Classicism — or of French Liberalism — has the younger generation of economists as it comes upon the field found so united and common a way of looking at economic problems, or so large a body of generally accepted principles.

## BIBLIOGRAPHICAL NOTES

### CHIEF BIBLIOGRAPHICAL SOURCES

- DUBOIS, *Précis de l'Histoire des Doctrines Économiques*.  
COSSA (L.), *An Introduction to the Study of Political Economy*, 1892.  
ONCKEN (A.), *Geschichte der National Ökonomie*.  
PHILLIPOVICH, *Grundriss der Politischen Oekonomie*, I, § 19, and pp. 377, 380, 385, 387, etc., of 8th ed.  
KNIES, *Die Politische Ökonomie* (1883), pp. 521 ff.  
M'CULLOCH, *The Literature of Political Economy*.  
CAUWÈS, *Cours d'Économie Politique*.  
*Revue d'Histoire des Doctrines Économiques et Sociales*.  
PALGRAVE, *Dictionary of Political Economy*.  
CONRAD, ELSTER, et al., *Handwörterbuch der Staatswissenschaft*.

Dubois' *Précis* has very complete lists of books and articles dealing with different writers and phases of the history of economic thought, drawn from all the principal languages. The *Revue d'Histoire* is a recent periodical (now discontinued) devoted to the history of economic thought. Besides its valuable articles, it contains bibliographical material. These two French publications are perhaps the most valuable bibliographical aids. Cossa's well-known *Introduction* hardly needs mention. It is a mine of information, but only covers the years down to 1890. Oncken's work has a valuable classified list of authorities, but as the first volume alone has appeared, it only covers the period through the Physiocrats. As a brief sketch of the main steps in the development of economic thought, together with a statement of the leading sources, the *Grundriss* of Phillipovich is serviceable. Knies' *Politische Ökonomie*, Cauwès' *Cours* and M'Culloch's *Literature* are older and of less value. To the various articles on authors, etc., in Palgrave's *Dictionary* and in the *Handwörterbuch* will be found appended lists of the authors' works and sources on the subject. The lists of authors' publications in the latter are generally but not always complete and very valuable.

## LEADING WORKS ON THE HISTORY OF ECONOMIC THOUGHT

No attempt will be made to present a complete critical bibliography. The chief bibliographical sources have been indicated; and, in the footnotes, the most important references will generally be found in direct connection with the topic in interest. There follow, then, a few critical notes concerning the most valuable and available works, and a list of other general treatises.

BONAR, J., *Philosophy and Political Economy in some of their Historical Relations*, 1893 (2d ed., 1909).

This is the only attempt to "present a view of the relations of philosophy and economics through the whole of their history." Begins with Plato and runs through Marx and Darwin. Such writers as Bodin, Grotius, Harrington, Hobbes, Locke, Kant, Fichte, and Hegel, are included, along with the more prominent economists. The thought is not always clear, but the work is valuable, and the second edition has useful bibliographical notes.

CANNAN, E., *A History of the Theories of Production and Distribution in English Political Economy from 1776 to 1848*, 1893 (2d ed., 1903).

This acute work is more special and detailed than most of the others to be referred to, as is indicated by its title. It is an accurate critical analysis of the economics of the Classicists. Considerable attention is given to the formal side: the subdivision of the science and the definition of the terms. A confusion between different concepts of distribution is indicated. At points the author is hypercritical.

COSSA, L., *Guida allo Studio dell' Economica Politica*, 1876. English translation, *Introduction to the Study of Political Economy*, 1892.

This classic work gives a running account of economic writers and their works, being remarkably complete from the middle ages to 1890. The treatment of important writers is too brief, and so many are mentioned in so small a compass that proper subordination is impossible, but the criticisms are clear, pointed, and, on the whole, just. It might be called an encyclopedia of economic literature. It is written from the point of view of a Classical economist.

DAVENPORT, H. J., *Value and Distribution, a Critical and Constructive Study*, 1908.

In spite of its title, the book is chiefly critical. It deals mostly with recent theory, and is concerned with the pure theory of distribution. There are chapters on Smith, Ricardo, Senior,

Mill, Cairnes, Say, Marshall, Hobson, Clark, and the Austrians. No attempt is made, however, to treat the development of economic thought as an evolution nor to associate it with environmental conditions. It is not clear, and is difficult reading, but is very valuable for advanced students.

GIDE (C.), RIST (C.), *Histoire des Doctrines Économiques depuis les Physiocrates jusqu'à nos Jours* (History of Economic Theories from the Physiocrats to our Own Time), 1909. English translation (1915).

This is the latest comer in the field, and has many excellent features. It deals with the founders, their adversaries, liberalism, the dissenters, and recent theories. Out of 731 pages, 292 are devoted to Socialism and social reform, and 33 more are given to Sismondi. Aside from the Socialists, List is the only German given chief attention. The book is well written, and the account of recent theories is enlightening.

INGRAM, J. K., *A History of Political Economy*, 1888.

This English work covers about the same period as Cossa's history, but more space is given to ancient thought. The aim of the book is not to give so exhaustive an account of the literature, and a better balancing of material is the result. It is written from the point of view of the Historical School, and the author's criticism of Classical methods and theories is not free from bias. Ingram was an ardent adherent to Comte's ideas, and thought that economics could not be a science except as a part of sociology. The criticism of the Classical economists, the accounts of Cairnes, and of Ingram's contemporaries, Leslie and Toynbee, and the discussion of the German Historical School, are noteworthy points.

KAUTZ, J., *Die Geschichtliche Entwicklung der National Oekonomie und ihrer Literatur*, 1860.

This book deals with both ancient and modern thought. It is the best of the older works, but is largely out of date, as a result of numerous special investigations. Kautz was a student of Roscher's, and wrote from the standpoint of the Historical School. The judgments are not always free from haste, and the style is often declamatory. Though rather ponderous and not free from inaccuracies, the book may still be consulted with profit. There is no index.

ONCKEN, A., *Geschichte der National Ökonomie*, 1902. (Only the "Erster Theil — die Zeit vor Adam Smith" — has appeared.)

A learned and thorough treatise, fully abreast of recent scholarship. It is given to great detail at points, especially in dealing with the Physiocrats. (Perhaps Turgot is underrated by the

author.) This is the best work on the period prior to Adam Smith.

PRICE, L. L., *A Short History of Political Economy in England*, 1890 (4th ed., 1903).

This concise little volume begins with Adam Smith and ends with Toynbee. The attempt is made to deal mostly with the chief English thinkers, and to center attention upon their most characteristic thought. Unbiased.

ROSCHER, W., *Geschichte der Nationalökonomik in Deutschland*, 1874.

This has long been the standard work on German economic thought. It is a very detailed account, yet its substantial accuracy has rarely been questioned. The book contains valuable sidelights on the economic thought of other nations.

*Die Entwicklung der deutschen Volkswirtschaftslehre im neunzehnten Jahrhundert*, 1908. (The development of German economic theory in the nineteenth century.)

This two-volume work consists of a number of essays, mostly by German scholars, and was published in honor of Professor Schmoller's seventieth birthday. The history of the theories of production, distribution, value, rent, wages, interest, population, etc., and of various practical policies, is treated in separate articles by such specialists as Lexis, Diehl, Inama-Sternegg, Borkiewicz, Phillipovich, etc. There is no index.

Other histories of economic thought have been written, of which the following list presents the most familiar titles. The most useful ones are marked with an asterisk.

BIANCHINI, L., *Scienza del ben vivere sociale e della economia degli stati*, 1845-1855.

BLANQUI, J. A., *History of Political Economy in Europe*, 1837 (American translation, 1880, from 4th ed., 1860).

\*BLOCK, M., *Le Progrès de la Science Économique depuis Adam Smith*, 1897.

BUNGE, N. C., *Literature of Political Economy*, 1900 (French translation from Russian).

DAMASCHKE, A., *Geschichte der Nationalökonomie*, 1904 (3d ed., 1909).

The book is written as a "first introduction" to the subject. Of its 417 loosely printed pages, 155 are given to chapters on Communism, The Anarchists, and Land Reform; and no mention is made of the Austrian School. Social reform, rather than economic theory, is emphasized. List's importance is stressed.

\*DENIS, *L'Histoire des Systèmes Économiques et Socialistes*, 1904-1907. 2 vols. Physiocrats to Wm. Thompson; several diagrams and facsimiles.

\*DUBOIS, *Précis de l'Histoire des Doctrines Économiques*, 1903. Vol. I, *L'époque antérieure au Physiocrates*.

DÜHRING, E., *Kritische Geschichte der Nationalökonomie und des Socialismus*, 1871 (4th ed., 1900).

Dürring was a follower of Carey. He is unduly harsh in criticizing writers to whom he was opposed.

\*EISENHART, H., *Geschichte der Nationalökonomik*, 1881; 2d ed., 1891. Ingram styles this work a "vigorous and original sketch." The writer has not found it so useful or readable as might be inferred.

\*ESPINAS, A., *Histoire des doctrines économiques*, 1892.

FRIDRICHOWICZ, E., *Grundriss einer Geschichte der Volkswirtschaftslehre*, 1912. Of some value as a catalog of authors; but contains inaccuracies.

LASPEYRES, E., *Geschichte der Volkswirtschaftlichen Anschauungen der Niederländer und ihrer Litteratur zur Zeit der Republik*, 1865.

MACLEOD, H. D., *The History of Economics*, 1896 (the author's peculiar ideas somewhat illustrated from history. Not a history of economics).

\*M'CULLOCH, J. R., *The Literature of Political Economy*, 1845.

NYS, E., *Researches in the History of Economics*.

\*RAMBAUD, J., *Histoire des Doctrines Economiques*, 1898 (2d ed., 1902).

ROSCHER, WM., *Zur Geschichte der Englischen Volkswirtschaftslehre*, 1851-1852.

\*TWISS, T., *View of the Progress of Political Economy in Europe since the Sixteenth Century*, 1847.

VILLENEUVE-BARGEMONT, A. DE, *Histoire de l'Économie Politique, ou Études historiques, philosophiques et religieuses sur l'économie politique des peuples anciens et modernes*, 1841.

\*VON SCHEEL, H., Article on History of Political Economy in Schönberg's *Handbuch der Politischen Oekonomie*.

From the vast field of special monographs, only a few will be mentioned. Especially noteworthy is the group of studies in the history of value theories:—

SEWALL, H. R., *The Theory of Value before Adam Smith*, 1901 (American Economic Association Publication).

ZUCKERHANDL, R., *Zur Theorie des Preises*, 1889.

KAULLA, *Die geschichtliche Entwicklung der modernen Werththeorien*, 1906.

ROST, B., *Die Wert- und Preistheorie mit Berücksichtigung ihrer dogmengeschichtlichen Entwicklung*, 1908.

WHITAKER, A. C., *History and Criticism of the Labor Theory of*

*Value in English Political Economy*, Columbia University Studies, Vol. XIX.

Böhm-Bawerk's *Capital and Interest* is among the most valuable critical examinations of the history of economic theory, primarily for interest theories and secondarily for the theory of value; but one must remember that the author is a leader of the Austrian school.

Taussig's *Wages and Capital* contains 193 pages devoted to the history of the theory of wages and contains much interesting analysis.

A. S. Johnson's *Rent in Modern Economic Theory*, 1902 (American Economic Association Publication), is a scholarly discussion of the place of land in distribution which contains useful historical analysis.

Such special works as Higgs' *The Physiocrats*, and Small's *The Cameralists* (1909), fill a valuable place in the student's bibliography.





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